THE ACCOUNTANT

Established 1874

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INDEX TO *THE ACCOUNTANT*

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VOL. CLIV

To facilitate reference to this volume, many of the page numbers have italic letters added, indicating:

a .. Articles
c .. Correspondence
l .. Lectures, Addresses, etc.
ca .. Current Affairs
f .. Finance and Commerce
p .. In Parliament

D

E

N

O

P

Q

R

S

PAGE

T

U

V

W

Y

INDEX TO SUMMARIES OF TAX CASES

PAGE

ESTATE DUTY

INCOME TAX

PAGE

Income Tax – *cont.*

STAMP DUTY

SURTAX

TRADE

THE ACCOUNTANT
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Vol. CLIV, No. 4750 January 1st, 1966

The Recognized Weekly Journal for the Accountancy Profession throughout the World

ON OTHER PAGES

Wind of No Change

EVEN if the full story of the defence of sterling last summer has yet to be told, enough is by now common knowledge for it to be realized how close Britain came to the brink of devaluation. Since the mobilization of additional foreign support early in September, the spot rate of sterling has recovered and at times it has seemed stronger than at any time in recent years. Just recently, however, some of the earlier support for sterling seems to have waned and once again there is uncertainty regarding its future.

There are obvious signs that 1966 could turn out to be another bad year for sterling. As the current Bank of England *Quarterly Bulletin* points out, 'it must not be forgotten how much the recent recovery of sterling owes to the growth of confidence abroad that the Government's measures will eliminate the external deficit during 1966 and in due course bring about a better ordering of the country's resources'. That confidence seems of late to be rather less well founded than in the past.

The key issues for maintaining confidence are the elimination of the balance of payments deficit and the better ordering, to use the Bank's own term, of Britain's resources. Just what are the prospects in these respects? The first and basically the simpler to resolve, since it is in the main a symptom of the failure in recent years to ensure the proper use of scarce resources, is the balance of payments deficit. Some progress has been made, indeed the continuing albeit modest improvement in the over-publicized gold and hard currency reserves has at times suggested that the recovery has gone much further than in fact it has. The massive deficit of 1964 has almost certainly been cut; perhaps by as much as £500 million. Nevertheless, current rumour has it that the third-quarter figures of the balance of payments may prove less than encouraging.

Unfortunately, the factors which have together brought about the improvement in the overseas payments situation are neither permanent nor are they likely by themselves to ensure a continuing improvement. It should not be forgotten in the longer run that Britain does not need merely to balance her overseas payments account; an ultimate surplus of about £500 million is the minimum objective if every scare and short-lived flight from sterling is not to generate a new phase of deflation in the domestic economy.

The improvement in the balance of payments figures for 1964 may be attributed to two factors. The first is the welcome, but nevertheless modest, increase of about 6 per cent in the value of

Britain's exports. The second is the relative stability in the value of imports. The latter is due, however, to a fall in commodity prices and, to some extent, to the effects of the surcharge upon imported manufactures. It is essential to put these facts into perspective. Encouraging though the increased volume of exports may be, the improvement neither matches the growth in world trade nor the expansion in exports recorded by other countries. In short, despite the favourable conditions for international trade, Britain's share of world trade in manufactured goods continues to decline, just as the improvement in the terms of trade cannot last indefinitely any more than can the surcharge. The depressing conclusions of the *London and Cambridge Economic Bulletin* (December) are that 'not far short of one-half of the improvement in the balance of payments on current account between 1964 and 1965' can be accounted for by the fact that the prices of our imports did not increase to the same extent as export prices. Yet, if sterling is to survive the year ahead, then the improvement in the current account must be maintained, i.e. a further increase in exports in relation to imports. What are the prospects that this objective will be achieved?

Given the present state of affairs within the British economy, one would need to be highly optimistic to believe that 1966 will see the balance of payments deficit completely eliminated. The simple fact is that the first stage in restoring the external balance was the easiest, since it could be achieved largely by negative measures such as the cutting back and restriction of imports, by the tightening-up of exchange control and the restriction on further overseas capital investment.

The need now, as it has been in every year since the Second World War, is for positive measures designed to bring about a more effective utilization of resources and a larger allocation thereof to meeting the needs of export markets. In this respect, the prospects are at best uncertain and at worst depressing. The basic problem is the labour supply. As long as there are more vacancies than there are men to fill them, then it is hopeless to expect incomes not to exceed the current rate of increases in productivity. The present rate of growth is probably no more than 2 per cent; the recent rate of increase in income is about 7 or 8 per cent.

What then is the Government's policy to be? The sad truth is that as long as the balance of payments position is so weak, the Government's effective control of internal policy is limited to short-term palliatives. Hence the obvious course is to intensify the restrictions and restraints upon the economy to a point at which the disinflation produces under-utilization of capacity and an increase in unemployment. This will eliminate the excess demand and free resources for exports. Such a policy has two major disadvantages. The first is that to achieve even a modest degree of deflation throughout the economy, some parts of the country will have to experience rates of unemployment which are quite unacceptable either to the Government or the trade unions. Furthermore, such periods of deflation have invariably been marked by a revival of restrictive practices such as the adoption of the three- and four-day working week in industry, instead of the much-to-be-desired re-distribution of labour. Hence unit costs tend to rise, new investment is discouraged and confidence destroyed. Thus, the Government's policy of a more rapid rate of growth as formulated in its National Plan would have to be abandoned.

The key to the situation is the as yet abortive incomes policy. Even Mr CALLAGHAN has been moved to public protest at the lack of progress made in this respect. A dangerous development in Mr BROWN's efforts to achieve his objective has been the pressure brought upon industry to hold their prices. In the shorter run, profits can be so squeezed. Unless, however, the Government intends to play a much more positive role in the ordering of industrial affairs than it has hitherto contemplated, such a policy could in the longer run sow the seeds of further industrial inefficiency. For, unless there is an adequate margin of profit to be derived from investment in new plant and equipment, there is no purpose in the Government devising some ingenious fiscal incentives to new investment if it debars industry from the most powerful incentive of all, i.e. profits.

Mr BROWN has hinted at statutory control of prices and incomes. This would be a policy of desperation and would inevitably end in disaster as more and more resources were misapplied. To the extent that it is far easier to control prices than incomes, the inevitable outcome of such limited regulatory policies would be an intensification of inflationary pressure and the distortion of the structure of prices.

The essentials of a remedial policy are clear. Either incomes cease to outstrip productivity, or production must be raised to match the level of incomes. There is, however, no evidence to suggest that the latter is likely in the foreseeable future. As the main force contributing to the current wage drift is the demand for labour, it is clearly logical to attack the problem at its source. In other words, monetary and fiscal policy must reinforce the present limited squeeze and the Government must have the courage to persist until the 'better ordering' of resources has been achieved.

The Government has acknowledged that the maintenance of the sterling exchange parity is its primary objective. In that case, everything else must be subordinated to that goal – even full employment and public spending. The policies to those ends may not be new, but they can prove effective.

CAPITAL GAINS TAX

Disposal on Death

BESIDES being 'an awfully big adventure', death amounts to a disposal of all one's assets, and attracts capital gains tax accordingly, in so far as the gains exceed £5,000.

Section 24 (1) of the Finance Act, 1965, provides that on the death of an individual all the assets of which he was 'competent to dispose' are to be deemed to be disposed of by him at the date of death, and acquired by his personal representatives (or other person on whom they devolve) for a consideration equal to their then market value. Presumably he must have been 'competent to dispose' at the moment of death. This phrase is much used in estate duty legislation, but section 24 (9) gives it a special definition for capital gains tax purposes. The definition involves a number of assumptions contrary to what may be the actual facts. These are that:

(a) the deceased was of full age and capacity;

(b) the assets were in England;

(c) the deceased was domiciled in England.

If, on the above assumptions,

(i) he could have disposed of the assets by will,

(ii) otherwise than in right of a power of appointment or a statutory power to dispose by will of entailed property

then he was competent to dispose of those assets. In Scotland an heir of entail in possession of an entailed estate, or a 'proper liferenter' of an estate, is deemed competent to dispose of it (section 24 (10)).

Given such a disposal as is contemplated by section 24 (1), then *ex hypothesi* the disponer will be dead, but the ordinary rules of income tax administration will apply and his personal representatives will be accountable. The personal representatives (as defined in section 423 (4) of the Income Tax Act, 1952) will be treated as being a single and continuing body of persons having the same residence, ordinary residence and domicile which the deceased had at the time of his death (section 24 (6)). Residence and ordinary residence have the same meanings as for income tax (section 43 (1)). Notwithstanding the reference to a 'body of persons' it seems that these personal representatives will not be an 'unincorporated association' within the meaning of section 45 (1), which defines 'company' to include such an association.

Section 24 adds a new terror to death, not only because of the imposition of the tax itself, but because of the abstruse calculations to which it will give rise. However, section 24 (2) will in effect exclude the vast majority of deaths. Only so much of the aggregate notional gains as exceeds £5,000 is to constitute chargeable gains. One must, however, debit against this sum the gains which have accrued on any *donatio mortis causa* which the deceased has made.

On the other hand, any notional loss arising because of the deemed disposal is deductible in arriving at the aggregate gains before the £5,000 is deducted. The same applies to any loss arising from a *donatio mortis causa*. One must mention here that such a *donatio* is not treated as a gift for capital gains tax purposes, but as a testamentary disposition. This piece of legislation is embedded in the definition of 'legatee' in section 45 (1) of the Act.

Section 24 (2) does not affect the computation of any allowable loss. The £5,000 is reduced if the deceased has already had relief under section 34 in respect of disposal of business assets when he was over 60 years of age[1]. If the section 34 relief exceeds £5,000, then the £5,000 mentioned in section 24 (2) is reduced by the excess. Thus if the section 34 relief was £7,000, then £3,000 instead of £5,000 is to be adopted for section 24 (2) purposes. If the section 34 relief is £10,000, section 24 (2) brings no further relief (section 34 (4)).

Section 20 (4) provides generally for the set-off of losses in one year against gains in that year. Section 24 (3) provides expressly (if unnecessarily) that for the purposes of section 20 (4) the notional chargeable gains under section 24 (2) are available for set-off against losses incurred by the deceased before his death but in the tax year in which he died. The losses before death having been dealt with, section 24 (4) deals with the notional losses on death. In so far as they have not been set-off in the computation of the aggregate losses on death, they are available for set-off against gains accruing in the tax year of death but before the death. If this does not exhaust the losses

[1] Section 34 was discussed in leading articles in our issues of July 31st and August 7th, 1965.

(actual or notional) of the year of death, they can be carried back to the three preceding tax years, taking the latest years first (section 24 (5)). It is to be borne in mind also that the liability arising by reason of the deceased's death will qualify for the favourable rate contemplated by section 21, which we discussed in a leading article in our issue of June 19th, 1965.

In the ordinary way, personal representatives, in the course of winding up the estate, sell the deceased person's assets. Now under section 24 (1) they will be deemed to have acquired these assets at their market value as at the date of death. Everyone knows how difficult it often is to induce the Estate Duty Office to agree a reasonable market value. Suppose that the personal representatives have accepted a somewhat optimistic value put forward by the Inland Revenue, but then sell the assets at arm's length for a small amount. This would throw up a loss which, of course, would be allowable against their chargeable gains. But suppose there are no such gains, or not enough to absorb the loss. Section 24 (8), which was added after criticisms at the Committee stage, provides for that loss to be carried back so as to be set-off in the same way as losses accruing in the year of death. However, the subsection applies only if the personal representatives dispose of the assets within three years after the death.

Of course it is not only sales which are disposals. Possibly the market value of an asset will fall between the date of death and the date of disposal (otherwise than by sale) by the personal representatives. Here again the notional loss is available for carry back.

Where the personal representatives hand an asset over to a legatee, section 24 (7) applies a special rule. In this context 'legatee' includes:

> 'any person taking under a testamentary disposition or on an intestacy or partial intestacy, whether he takes beneficially or as trustee' (section 45 (1)).

The word includes the donee of a *donatio mortis causa*. Section 24 (7) directs that, on a person acquiring any asset as legatee, no chargeable gain is to accrue to the personal representatives. Instead the legatee is to be treated as if the personal representatives' acquisition of the asset had been his acquisition of it. He thus stands in their shoes in relation to a subsequent disposal by himself.

Sometimes the provisions of a will, or the effect of the intestacy rules, do not meet the wishes of the family and they come to a formal arrangement for a different distribution. Disposals pursuant to such an arrangement would not be disposals to a 'legatee' within the meaning of section 24 (7). However, where the deed of family arrangement or similar instrument is executed within two years after the death, section 24 is to apply as if the variation made by the deed had been made by the deceased. No disposition made by the deed is to constitute a disposal for capital gains tax purposes.

Although the capital gains tax levied on assets which the deceased was competent to dispose of clearly arises on a death, nevertheless, references in any Act to duties leviable on death are not to be read as including capital gains tax, unless the Act specifically so provides (section 45 (10)).

The fact that capital gains tax has been paid on a deceased person's asset in no way exempts that asset from estate duty if that duty is otherwise chargeable. However, in arriving at the value of the estate the deductions for debts are to include capital gains tax payable on the death, as well as any capital gains tax already owing by the deceased (section 26 (1)).

It will be seen that an asset may have to be valued for capital gains tax purposes as well as for estate duty. If a value has already been fixed for capital gains tax purposes and the assessment is conclusive, and the estate duty valuation has to be made under section 7 (5) of the Finance Act, 1894 (i.e. the ordinary market value), then the value already fixed must be adopted (section 26 (3) (4)).

There are some special points about computations of gain or loss in accordance with the requirements of section 24. Clearly the disposal by the deceased at the moment of death is a purely notional disposal and therefore there can be no expenses of such disposal. But inevitably when the personal representatives dispose of the asset in question they will incur some expenses of the kind referred to in paragraph 4 (2) of Schedule 6 to the Finance Act, 1965. Paragraph 16 (1) of the same schedule gives to the personal representatives the right to claim those expenses in the computation of the deceased person's gain or loss. This applies whether they dispose 'by way of sale or by way of disposition to legatees'. Any other kind of disposal apparently does not qualify.

If the legatee incurs paragraph 4 (2) expenses in taking the disposition, then he can claim such expenses when he in turn disposes of the asset. Moreover, if the personal representatives have not claimed expenses under paragraph 16 (1), then the legatee can claim them on the subsequent disposal (paragraph 16 (2)). It follows that where the £5,000 exemption covers the notional disposals on death, it will be preferable for the personal representatives not to make a claim under paragraph 16 (1) and thus to preserve the claim in favour of the legatee.

Current Affairs

New Year – New Style

SOME months ago we decided on a New Year resolution for 1966. Readers of this issue (the 4,750th since *The Accountant* was first published in October 1874) see the outcome of this resolution – a 'new look' to greet the New Year. A new cover, new layout and new size – though as to the last we are simply reverting to pre-war – all with the object of making *The Accountant* more attractive, more easily read and more up to date. We hope readers will agree.

Further, as already announced, *The Accountant* (as from next week) is to be published on Thursdays, a day earlier than in the past, so that all readers in the United Kingdom may receive their copies by the week-end.

We wish all our readers a Happy New Year – and happy reading!

Computers in Offices

THE fourth of the Ministry of Labour's manpower studies, just published, discusses the effect of computers in office employment[1]. After considering the reasons for installing automatic data processing, the uses to which it may be put, what methods it supersedes and the time it takes to set up a system, the report goes on to deal with the general effect of A.D.P. on office employment and then A.D.P. as a new form of office employment, and the working conditions it creates.

As will be noted from the general conclusions, which are referred to in substance elsewhere in this issue, it does seem as if A.D.P. will not be responsible for any dramatic changes in the present pattern of office employment during the next five years. After that the position is obscured by factors such as the growth of the rate of productivity, the amount of manpower available, and technical improvements in computer performance. Weighing these, and taking an oblique look at the crystal ball, it would seem that A.D.P. during the next ten years or so may temper the growing shortage of office workers and, indeed, that for some firms the use of computers may be essential to survival.

[1] *Computers in Offices*. H.M.S.O. Price 4s net.

Revenue Dispute Accountant's Congress Expenses

LAST week a High Court judge remitted to the General Tax Commissioners a dispute as to whether £165 spent by a chartered accountant in visiting America for the Eighth International Congress of Accountants in September 1962 was deductible for tax purposes.

The Inland Revenue had appealed against the Commissioners' decision that Mr Dudley Arthur Jonathan Ward, F.C.A., a partner in Ward & Co, Chartered Accountants, of Walton-on-the-Naze and Frinton-on-Sea, was entitled to deduct the £165.

Mr Justice Stamp said the Commissioners should have stated for what purposes they considered Mr Ward spent the money.

Mr J. R. Phillips, for the Crown, said the question was whether the money was wholly and exclusively expended for the purposes of Mr Ward's profession. He contended that the expenditure had only a remote connection with the earning of Mr Ward's profits.

The Commissioners had disallowed a similar claim in respect of £106 spent by Mr Ward's wife, a part-time assistant in his practice, who had accompanied him to New York.

Mr Ward said he had a number of international clients. Also, all the subjects discussed at the Congress were equally applicable to British practice.

New Buildings for Old

PLANS for rebuilding the London Stock Exchange have now been finalized including acceptance by the Council of the various works contracts. The scheme, due to start next September, will be carried out in two phases. A white line has been painted across the House to show the limit of the area to be demolished in phase A. During this time the market will be accommodated in the western half of the existing house and the adjoining ground floor of what is at present 61 Threadneedle Street. The removal and temporary resiting will take place during the second half of July.

Phase B, to begin in February 1970, involves another makeshift transfer of the market, this time to the lower floors of the new tower block to be erected. Finally, it will occupy its permanent new home in a low building adjacent to the tower in August 1972 –

five years and eleven months after the demolition contractors have struck the first blow.

To help members to visualize what the new exchange will look like, the Stock Exchange Council has issued an explanatory brochure. All the main buildings will be fully air-conditioned; underground parking for 159 cars will be provided; outside the building there will be high-level pedestrian ways similar to those already in use in the Barbican scheme; and among the other amenities there will be an elaborate Post Office private automatic branch exchange linking together member firms' offices, brokers' boxes, jobbers' pitches, and, of course, the outside world in one composite system.

The total area of the site to be developed is 62,858 square feet and covers the greater part of the island site bounded by Throgmorton Street, Old Broad Street, Threadneedle Street and Bartholomew Lane, with the exception of the properties occupied by the Sun Insurance office and Alliance Assurance Co Ltd in the last two of these thoroughfares. In planning the redevelopment, the co-operation of the owners of certain adjoining buildings had to be sought and these negotiations appear to have been satisfactorily settled.

Investment Allowances Refused

NO investment allowance is to be granted in respect of light vans since they are used by some members of the public for private purposes. It seems that instructions have been given by the Board of Inland Revenue to its Inspectors of Taxes so to interpret section 16 of the Finance Act, 1964, which provides that no allowances are granted in respect of vehicles unless they are of a type not commonly used as private vehicles and are unsuitable for such use. Such an interpretation, argues the Traders' Road Transport Association Ltd, hits harshly at traders who have acquired light commercial vehicles such as the Morris 1000 van, the Commer Imp and the Triumph Courier.

The Association concedes that the wording of the section can be so interpreted, but they feel that it was not the intention of the Legislature that the use of certain types of genuine commercial vehicles should be so penalized. Their view is reinforced by the fact that such vans, if used privately and not for business purposes, bear a lower rate of road tax, i.e. £17 10s as against £27. Furthermore, the Revenue decision will

B.P.C. Annual Meeting

THE 'catalogue of negatives' which made up the auditors' report to the members of The British Printing Corporation Ltd was translated into positives at the annual meeting on Thursday of last week. There is no doubt that a major point is the need for a Board of Trade investigation, not necessarily into the affairs of the company (the Board of Trade has already stated that at present it does not contemplate an inquiry) but into the question of company law reform.

The meeting showed clearly enough that the key words in the appendix to the auditors' report (reproduced in *The Accountant* of December 11th) were: 'the true position with regard to a number of these transactions does not appear to us to be reflected in the books'. One of 'these transactions' is now the subject of legal action – the company has instituted proceedings against Mr Wilfred Harvey, the former chairman and managing director who retired at the end of October, claiming recovery of £288,331.

From their examination of the books the former sole auditors were satisfied that proper books were kept and that information and explanations were adequate. Questioning at the annual meeting showed clearly enough that the matters subsequently brought to light were not recorded in the books, and that must mean that the present state of company law is inadequate in so far as it concerns the disclosure of directors' interests in contracts and, in fact, the disclosure of directors' interests at large in their companies.

It should be recorded at this point that, speaking at the meeting, Mr John Pears, F.C.A., senior partner of Cooper Brothers & Co, made it clear that Cooper Brothers had access (as investigators before becoming joint auditors) to information which was denied or did not come before the late auditors at all.

'The whole investigation in fact', he said, 'was triggered off by the action of the late auditors in bringing certain matters to the attention of the board and this led to our appointment.' Supporting what the auditors had done in the past, Mr Pears said: 'I do not think they are subject to blame in any way.'

Answering a question on auditors' fees, Mr Pears said that the fees were shared by about forty firms – a matter which some may consider points to a need to tighten the extent to which the auditors of a parent company's accounts should reach down into the affairs of subsidiary and sub-subsidiary companies.

Main auditors are entitled to accept as adequate the accounts of subsidiaries not audited by them but there is a limit to which this acceptance can be taken. The recent resignation of the auditors of Seager Evans & Co Ltd is a case in point.

But when all is said and done, the onus for the proper direction of a company is with the directors; the responsibility is theirs entirely. In the vast majority of cases this responsibility is accepted and discharged – voluntarily as well as legally. The need now is for the extent of legal responsibility to be strengthened and the onus for that lies in the hands of the Board of Trade and the Government of the day.

tend to discourage the use of these small vehicles in towns whereas, in view of urban congestion, such a development is strongly to be encouraged. The Association, together with the Road Haulage Association, are currently seeking the support of the Ministry of Transport in making representations to the Board of Inland Revenue.

Developing Countries need Accountants

IN developing countries, financial statements for agriculture, industry and commerce are often deficient, comments Mr Adolf J. H. Enthoven, an economist and accountant from the Netherlands, in an article entitled 'The accountant's function in development', in the current issue of *Finance and Development*, published by the International Monetary Fund and the World Bank. The result is that accurate accounts upon which investment decisions can be based are not available and therefore both domestic and foreign investors may be discouraged.

Mr Enthoven is also concerned that without proper financial accounts it is not possible to build up complete and reliable social accounts for the national economy. Thus national economic planning is adversely affected. A particular shortcoming in this situation is that it makes the full development of the fiscal system impracticable. It is not by accident that the Exchequers of such countries rely heavily upon indirect taxes, and that evasion of direct taxation is so widespread.

Effective management of new industrial undertakings depends on a flow of up-to-date and accurate information which, once available, will engender a spirit of confidence among investors. Such needs cannot be adequately met at the present time, however, owing to the shortage of qualified accountants in the underdeveloped territories. Mr Enthoven suggests that it might be useful to investigate whether accounting training centres in various areas could serve a useful purpose. Such centres could not only be used for training accountants, but could also assist local business men to set up proper and effective accounting systems.

MAN OF ACCOUNT

John Davies, M.B.E., F.C.A.

IT is not often that an organization which has been newly-formed as the result of integration between associations of similar interests makes a notable impact in its first weeks of existence. But this has been the case with the Confederation of British Industry and much of the credit must go to the Director-General, Mr John E. H. Davies, M.B.E., F.C.A.

John Davies, a chartered accountant since 1939, is a keen marketing man who firmly believes that 'Britain can make it, but must work a good deal harder to sell it'. He audited accounts in many parts of Europe before the Second World War and among them was that of an oil company. His interest in the oil industry was stimulated by that contact and in 1946 on demobilization from the Army he joined British Petroleum (then the Anglo-Iranian Oil Co). By 1962 he had become Vice-Chairman and Managing Director of Shell-Mex and B.P., a position he relinquished on his appointment as Director-General of the C.B.I. Nevertheless he still retains connections with the oil industry through his membership of the Council of the Institute of Petroleum and as chairman of the United Kingdom Petroleum Advisory Committee. Other appointments he holds include membership of the National Economic Development Council, the Energy Advisory Council and the Milk Marketing Board.

Aged 49 and married with two children – a son and a daughter – his home is near Henfield in Sussex. He also owns a small farm-house in France and a vineyard which, he says diffidently, 'produces a rough red Provençal wine'.

If John Davies's past record is any criterion, he should more than measure up to the demands which 1966 and the years ahead will place upon his role with the C.B.I.

More Views on Rating from I.M.T.A.

FOLLOWING its critical observations on the new Rating Bill reported in *The Accountant* of December 11th, The Institute of Municipal Treasurers and Accountants has now expressed its concern over the announced intention of the Minister of Housing and Local Government to abolish the rating system and to replace it with a new local tax.

Rates, the Institute points out, are the second largest single source of tax revenue, and yield one-eighth of total tax revenue. As an indication of the magnitude of the Minister's decision, it has been estimated that an increase in the standard rate of income tax of between 2*s* 6*d* and 3*s* would be necessary to replace this property tax by an increase in the tax on incomes. The announcement therefore represents a major national fiscal decision, and the Institute is 'both surprised and concerned' that it was not accompanied by a statement of the form of tax or taxes with which it is intended to replace rates.

The Institute states that it is by no means insensitive to public opinion on that part of the rating system which applies to domestic property, or on the impact of this opinion on local government. For many years financial advisers have continuously examined alternative sources

of local government revenue. In particular, in 1956, prior to the re-casting of the pattern of local government finance grant structure in the form in which it now stands, an eminent research group under the auspices of the Royal Institute of Public Administration studied alternative sources of revenue in depth. Again this year, the I.M.T.A. observes, the Association of Municipal Corporations revealed no less than sixteen sources of revenue. Both bodies concluded that the yields likely to be obtained from those alternative sources which were practical possibilities would be insufficient to replace rates. The alternatives could only be considered as additional sources of revenue to alter the ratio of central government grant to local government rates and/or to contain the rise of rates.

At the present time, the I.M.T.A. believes that there is no possibility of abolishing the rating system (or modified versions of it) except by changes in the national tax structure on a scale which would have fundamental financial, economic and social implications. In these circumstances, it considers that it is 'precipitate, to say the least, to begin dismantling a tax system which yields £1,100 million per annum, and which finances a substantial part of a wide range of essential public services, such as education, health, welfare, police and roads'.

This is My Life

by An Industrious Accountant

'YOU haven't mended the broken hinge on the garden gate yet.' Such pointed comment by one's wife is bad enough to hear as one shrugs a damp overcoat off one's weary shoulders in the hall. It becomes pointed to an embarrassing extent when followed by: 'And you were going to get some sheeting for the summer-house roof, too, weren't you, and that black tarry stuff?' Since both jobs are not only undone, but are also seen to be undone, reply seemed superfluous.

Personally, I lack skill in carpentry. To me a chore like putting up shelves is a painful operation of screwdrivers, bradawls, sore fingers and scarred walls. I envy friends, with large arrays of power tools in their home workshops, who talk patronizingly of the mahogany coffee-tables (imitation Queen Anne) they knocked up last week-end after building the Sheraton cabinets. My envy is enhanced by the eternal gushing admiration of even the best of wives for outsiders whose sole claim to such exalted esteem lies in a manual dexterity which a Neanderthal troglodyte could emulate. Surely we, the heirs of all the ages in Lord Tennyson's phrase, with thoughts brooding on heavens filled with the costly argosies of commerce, have higher aims than splashing bitumen?

Anyhow, I was grunting a defensively non-committal rejoinder when I was told triumphantly not to bother. She'd got a handyman to do the jobs, a real treasure. Apparently he'd turned up yesterday out of the blue; smiling, respectable, clean and hard-working, anxious for a job. Only 25*s* a day, he'd asked, and tomorrow he'd be coming back to prune the apple trees, re-floor the garage, and extract the tree stumps that I hadn't finished demolishing in the summer.

I saw the 'treasure' when I went home to lunch next day. He was all that she said, and more. Well he might be, having worked for the last ten years in our firm, and often in my own accounts department, as general utility man mending desks, chairs and filing cabinets, moving carpets and furniture, and a host of other jobs besides. He beamed on me warmly, leaned comfortably against the ladder, and explained the why and wherefore.

We'd let him go when we reorganized our maintenance department, reassured by his certainty that he'd easily pick up another job. Thinking it over, however, he'd changed his mind. After all, his weekly take home pay with us was under eleven quid, before paying lunches and bus fares, what with it being unskilled work and so on. Then he discovered that his unemployment pay was even better. There was £6 10*s* for himself and the wife, £3 6*s* for the four kids, and £1 8*s* for allowances, totalling £11 4*s* – all free of tax. Working around his home area on his bike, saving bus fares, he remarked cheerfully, he could pick up the few extra quidlets that made all the difference. Besides, he usually got his lunch where he worked; 'money for jam' you might call it, and anyhow gardening was his hobby . . . he loved outdoor work. A nice piece of cake, earning more unemployed than when he was a maintenance section assistant, and time off when he wanted it.

It was difficult to argue with him. He'd got it all worked out. Agreed it wouldn't last for ever; they'd catch up with him soon with an offer of another job; meantime his cards were stamped so it was all legit. and hunky-dory. He'd get back to a regular job when the hard weather set in.

My conscience relaxed slowly. Looking at all the domestic jobs I couldn't catch up with; admiring the finish of his skilled work, I couldn't blame him. Indeed, I was momentarily sorry that I couldn't follow his example and that there was no Shangri-la for mere senior accountants.

Consequential Loss Extensions

by AN INSURANCE CORRESPONDENT

THE estimated fire wastage figures, which are issued monthly, have achieved wide publicity. As a result, and because the whole question of fire prevention is receiving greater attention, it is probably fair to say that most companies are adequately protected by fire insurance so far as *material damage* is concerned. Not so much attention, however, has been paid to the insurance of consequential loss of profits following a fire or some other major peril. This is surprising since there has been comparatively little upward movement in the rate of premium charged for this particular type of insurance.

It is more than likely that many small concerns do not have sufficient cover of this kind. Some companies dislike the idea of giving too much information about their accounts to insurance companies, feeling that this is of a confidential nature, although, in fact, it is often only necessary for insurers to be given details of the gross profit.

Virtually all the larger firms appreciate that where a works is damaged or destroyed by fire, and operations are partially or drastically curtailed, there will be a substantial increase in the cost of working. A normal consequential loss policy pays for reasonable increased costs in order to avoid a substantial reduction in turnover.

Premium Rebate Clause

Obviously adequate cover is essential, and insurers realize that it may be difficult for a company to visualize a year's results in advance. To overcome this difficulty, a rebate of premium clause can be incorporated to the effect that if the gross profit earned proves to have been less than the sum insured, a full *pro rata* rebate of premium will be made on the amount of the over-insurance, subject only to the fact that not more than 50 per cent of the premium paid will be refunded.

Insurers sometimes cast doubt on the accuracy of figures which are given to them when a rebate is required. This may be due to a misunderstanding as to exactly what figures are required. Certainly, an insurance company should always be asked the procedure for arriving at the figure which it requires. All too often insurers speak about the sum insured being 'gross profit', when, in fact, to an accountant this means something quite different.

Provided that hurdle can be overcome and arrangements are made for the indemnity period to be the maximum period during which a fire or other disaster could have any effect, the main point is to ensure that the necessary extensions are incorporated in the policy.

Almost certainly there should be wider cover than simply against the risk of fire. Freak storms as well as flooding can be very serious and can cause fairly long stoppages of work. These risks should therefore be added to a consequential loss policy, although it should be appreciated that under such a policy, one cannot insure against perils which are not covered by the respective material damage policies.

Another important point to bear in mind is that unless special extensions are made, whatever the scope of the perils, a normal policy – which may apply to all the premises of the insured company whether for manufacturing, storage, administrative or other purposes – covers only the loss of profits following a disruption arising from one of the insured perils at premises of the insured company which are included in the policy.

Premises of Suppliers

There are often many other factors and locations on which the trading results may be dependent, which it may be prudent to cover by special extensions. For instance, there may be the premises of important outside suppliers. These may be not only those with whom the most business is done, but those who normally send supplies (perhaps of a specialized nature) on which the company is wholly dependent. In other words, how would the company's own position be affected if there was a reduction in or stoppage of supplies from certain quarters?

This can, of course, be taken a stage further. The suppliers themselves will be dependent on other suppliers; as a result, it is likely to be worth while to make inquiries of suppliers to discover the premises for which further cover should be arranged. Nevertheless, it is not usual to go back more than two stages.

Much the same principle applies in the case of the premises of customers. Here the point to consider is whether orders would be cut if the premises of any customers (or the premises of companies which they supply) were severely damaged. Quite often this aspect is overlooked, and yet it could clearly be an important one.

There are other locations which should be considered. For instance, if outside storage premises are

used, or if goods are sent away for processing, there is the question of damage to the insured company's own goods when they are away from the premises. Quite often, for certain kinds of processors' premises, additional cover of this kind may be granted free of charge subject, however, to a limit of 20 per cent of the sum insured.

Further extensions, which may be suitable for certain trades, can provide special cover where the work involves the use of patterns, jigs, models, templates, moulds, dies, tools, plans, drawings, designs, etc., the loss of which could have serious repercussions. In this connection, it does not matter whether they belong to the insured company or whether it is merely responsible for them. Cover can be arranged for the occasions when such items are sent to outside premises (e.g. machine makers, founders or engineers), and for losses arising not only from destruction of or damage to the property in question at the extension premises, but also while in transit by road, rail, or inland waterway in Great Britain or Ireland.

Another extension which should be considered concerns obstruction, or prevention of access. Obviously, in this case, much depends on the exact position of the premises to which the insurance relates. On the face of it, the risk may appear to be small, but on a number of occasions companies have found that due, for example, to a fire in neighbouring property, for a limited period it has been impossible to approach the premises. The question to be decided here is the extent (if any) to which the business would suffer (or additional costs would be incurred) because of the inability of motor vehicles to approach the works. This, of course, assumes that employees would be able to approach on foot – although, in some cases, perhaps even this might not be possible.

Special Type Vehicles

While on the subject of motor vehicles, since so many large companies are dependent on road transport, a loss of profits policy can be extended so that, if the business is affected due to damage *by an insured peril* to one or more vehicles, the necessary cover will be provided by the policy. Probably this extension has most importance when loss of business may result from the destruction of a special type of vehicle – such as specially-designed bulk liquid tankers or refrigerated vans which cannot immediately be easily replaced.

Besides a company's own premises and the various extensions which have been mentioned, a policy can be extended to include the electricity station, gas works or water works. This should take care of the position if damage caused by an insured peril occurs there and results in the business of the insured company being interrupted.

Besides this fairly limited form of cover, often it is possible to obtain cover in respect of failure of the public electricity supply from *any* cause; this need not be confined to failure due to the normal perils. Because of this, however, it is usual for this insurance to be arranged separately or by the extension of a breakdown profits policy. It should, however, be added that such a policy excludes the deliberate act of the supply authority or the exercise by the authority of its power to withhold or restrict the supply. Usually an indemnity period of up to thirty days is given, provided the duration of the stoppage is at least half an hour.

Breakdown Insurance

Breakdown insurance, on a consequential loss basis, has much to offer – especially when one textbook refers to an average rate of one claim for each five policies each year.

In the past the cover provided for breakdown used to be issued by the engineering departments of offices and was based simply on an agreed figure of compensation for each day's stoppage. Usually there was an excess, which was by no means unreasonable. The main drawback, however, of this kind of policy was that, being for an arbitrary amount, inevitably it could not always provide a true indemnity.

While this method of compensation was simple to operate, and thus there was little scope for dispute in connection with the settlement of claims, the whole aim of insurance should be to provide an ***indemnity***. This has been achieved by many policies issued in more recent years, which have been based on the usual loss of profits principle. Another important aspect is that the wording is the same as for the policy covering stoppage due to fire; this simplifies the procedure very considerably and also ensures that there are no 'loopholes' in the overall cover.

Usually an insured firm has the right to specify which machinery shall be covered for breakdown, although there is no doubt that this results in considerable selection against insurers. Nevertheless, the word 'breakdown' is used in its strict insurance sense. It is likely to be defined as:

> 'The actual breaking or burning out of any part of a machine whilst in use arising from either mechanical or electrical defects in the machine causing sudden stoppage of the functions thereof and necessitating repair or replacement before it can resume working; also damage to bearings caused by breakage or overheating. It shall not include within its meaning damage from any extraneous cause.'

There is usually a time excess in a policy of this type, which may be for one, two or three days, and in some cases longer.

Loss of Advance Profits

A policy which applies where new plant or machinery is being installed covers loss of advance profits. The principle is simple enough; if any physical accident

happens to machinery before it is running, the business cannot start on time as planned, and there will be a loss of profits. A policy of this kind will operate from the time the machinery leaves the premises of the suppliers until completion of the first twenty-four hours of starting-up test – for which a provisional date is given to the insurers. Should there be any delay in installation, the date can be altered. In the event of a claim, the indemnity period starts when normal operation would have begun and ends when it does, in fact, begin (always provided that the limit in the policy is sufficiently long).

When thinking of losses other than those which are strictly material damage, it is worth considering the insurance of book debts as an extension to a fire policy. The point in this connection is that from the time of the fire (or other accident) onwards, the normal loss of profits policy which has been discussed should take care of virtually all possible losses. If, however, the accountancy records should be destroyed, it could well prove impossible to collect all the outstanding debts for goods supplied or services rendered *before* the fire.

Insurers rate each case of this kind very much on its merits. Features which are taken into account are whether the books or their equivalent are kept in fireproof containers outside office hours; whether there is any means of obtaining a list of at least some of the debtors from another source; the general standing (and trade) of the insured firm and the majority of its debtors; and also whether any payments are made by banker's order. The settlement of a claim after a loss usually is based on the latest figure of outstanding debts, adjusted as necessary.

Computers in Offices

Effect on Office Manpower

ALTHOUGH in ten years' time computers may take over as much as 9 per cent of all office work – more than three hundred thousand jobs – it is probable that additional jobs created in the office will still be more than those taken over by computers.

Between 1964 and 1970 the effect of computers will be to reduce by about one-fifth the demand for additional office manpower. Beyond 1970 the filling of additional office posts is likely to become increasingly difficult.

These are some of the main findings of a new Ministry of Labour manpower survey[1] carried out during 1964. The survey looked at what has been happening to office staff when work has been transferred to computers, and examines in detail the effects on office employment in numbers, organization and quality of staff.

The most probable effect over the next decade will be that the more extensive and comprehensive use of the computer in offices – or automatic data processing (A.D.P.) systems – will offer a small but significant relief to the general shortage of manpower. 'For some firms', states the survey, 'the use of computers may be an essential means of survival.'

By January 1965 about six hundred computers were in use, with some four hundred more on order. Evidence made available during the survey suggested that A.D.P. would not produce any dramatic changes in office employment over the next five years. 'Beyond 1970 the picture is more obscure', says the survey, 'but . . . it is considered that the number of computers installed for A.D.P. will rise to at least six thousand by January 1974'.

This will require an increase in the rate of ordering from about three hundred and fifty in the year 1965 to one thousand in the twelve months ending July 1972, and in the rate of delivery from two hundred and fifteen in 1964 to about one thousand in 1973.

The survey adds that if the effect of A.D.P. went appreciably beyond the estimate and if, ultimately, it were found capable of making a substantial reduction in the total number of office employees, the pace of its introduction was unlikely to quicken to the extent that redundancy could not be foreseen in time to allow absorption without any serious hardship to the general community of office workers.

Effect on staff and jobs

The number of staff actually discharged as a result of the introduction of A.D.P. appears to have been virtually negligible. Only thirteen concerns reported such instances and in these the number stated to be discharged averaged less than ten in each case. Six of the thirteen organizations had moved some of their work to another place for A.D.P.

[1] Manpower Studies No. 4 – *Computers in Offices*. H.M.S.O. Price 4s net.

Nevertheless it was clear that, although the numbers employed by computer users as a whole had not fallen, A.D.P. had in the average organization taken over about one hundred and eight jobs. These consisted of some fifty posts which would have arisen through increasing business only if A.D.P. had not been available to undertake some of the extra work, and about fifty-eight jobs which were actually discontinued. The latter were either unfilled vacancies or posts from which employees moved, often to another part of the office. There was also quite a lot of other work which was modified only in detail.

To offset some of these reductions A.D.P. created a number of posts for such duties as systems analysis, programming and machine operation, amounting in the average organization to some eighteen posts. Thus the net reduction in the number of posts in the A.D.P. area was ninety, but as some of these would have arisen only if A.D.P. had not been installed, the reduction in numbers of persons actually employed in the A.D.P. area was only forty. Since 188 extra office posts arose outside the A.D.P. area, however, the net overall position in the offices of the average A.D.P. organization was an increase of 148 jobs.

Although the redeployment of staff has been fairly extensive in the limited areas affected, this has been achieved without much difficulty, the survey states. Among the reasons for the comparative absence of disruption had been the length of time which A.D.P. takes to install (from first to last about five years on the average), the predominance of women employees with no firm attachment to an office career, and the fact that in many cases A.D.P. took over from punch-card systems and much of the impact of mechanization had been absorbed previously. But perhaps the main reason why the transition has been comparatively untroubled is that it has been accompanied by a general expansion of business, especially in the office.

The attitude of management

One of the crucial factors pin-pointed by the survey that will affect the spread of A.D.P. is the motive that lies behind the decision to invest in a computer installation. What emerges is that in large part the uses are still of a routine rather than a forward-looking and productive character and that the reasons come from necessity (the shortages of staff, or space, or the need to replace outworn equipment) as much as from imaginative appreciation of the more dynamic potentialities of A.D.P.

During the survey, comment was offered on a number of occasions on the difficulty of enlisting the whole-hearted and unanimous interest of top management in computers. It was suggested, and the expense and complexity of installation made the suggestion understandable, that the machines and their advocates carry less than complete conviction in some cases to the minds of those who have to make the investment decision. It is also probable that on occasions management feels a need for competent and independent advice on these matters.

However, there were signs during the survey that computers are being increasingly accepted by existing users as a normal part of the office – indeed sometimes the very centre of it – and it is reasonable to assume that as computers increasingly establish their work in particular businesses, the effect on the mind of management as a whole will be cumulative and lead to some acceleration in the adoption of A.D.P. as standard office practice, at least in the larger organization. Nevertheless, the failure of some managers to learn about computers and make an objective evaluation of their usefulness may hold back their full development.

Uses of computers

Computers were found to be mostly employed on accounting and statistics, invoicing and billing, stock control and payroll operation; little headway had been made in using them to develop better form of management; nor was there evidence of any general change taking place in this pattern.

The computer can, of course, work with enormous speed and accuracy through long series of calculations; it can also be switched quickly from one task to another. Since these attributes lie at the root of a large part of business efficiency, the rate of advance of computers in British offices, on the evidence brought to light by the present survey, cannot be considered to have been particularly dramatic so far.

Since 1962, A.D.P. in office employment has been advancing at an average rate of rather less than two hundred installations a year, until by January 1965 some six hundred computers were in use. On January 1st, 1964, 472 organizations were using, or had on order, computers for office work at 562 A.D.P. installations, which included in all 703 computers. Of the 562 installations, 177 were small, 361 medium-sized and twenty-four large; and of the 703 computers, 390 were installed and 313 on order. In addition, service bureaux had forty-seven computers installed and a further eleven on order. All the above figures exclude computers which were withdrawn from service before January 1st, 1964.

About 20 per cent of the A.D.P. installations on January 1st, 1964, were in public administration and nationalized industry. Approximately a further 30 per cent were divided among the insurance, banking and finance group, and the engineering and electrical goods industries. Geographically, about half the A.D.P. installations were in London and South-east England, and approximately a quarter were in the Midlands and the North-west of England.

Future scope for using computers

One of the questions for the more distant future is what scope is there for further advance? It is reasonable to suppose, the survey observes, that no more than 10–15 per cent of the current potential field has so far been penetrated. As business increases with economic growth and A.D.P. machines improve, this field will, of course, also expand. For example, the availability of cheaper, small computers is making A.D.P. an increasingly practical proposition in the smaller firm.

During the survey, firms with as few as one hundred employees had already installed computers. The choice can (and, as the survey found, actually did) arise between engaging a dozen or so extra staff for a new job, with attendant overheads, including furniture and extra office space, and buying a computer. In some cases a computer was the better proposition. From present trends in the rate

of development it appears unlikely that the limits of computer use will be even approached within the next ten years.

Although the effect on posts gained and lost was found on balance not to have created any widespread problems in itself, it is clear that much care and foresight are needed if the changeover to A.D.P. is to be made in such a way that staff can be moved to the new jobs without friction, and redundancies absorbed without discharging employees.

Most of the employers who knew they would be faced with redundancy problems took positive action in advance to meet them, and nearly two-thirds of these had plans drawn up on paper. Many others considered they had not needed elaborate planning because their difficulties had been negligible. In some cases, for example, the computer was not large enough to have any appreciable effect on staffing. In others it had merely alleviated existing staff shortages.

The most frequent method of clearing redundancies was through normal wastage, assisted often by reducing the recruitment of permanent staff and increasing temporary engagements before the computer arrived. There were also transfers to other jobs, both within the A.D.P. area and elsewhere. Most of the staff in the area affected by the computer experienced only small changes in the work they were doing.

Recruiting computer staff

Foresight is also going to be needed to provide enough staff to devise systems and write programmes for future A.D.P. installations, the survey comments. As the demand increases it will become more necessary for organizations installing computers to anticipate their needs well ahead in order to select trainees and have them ready in good time. Training is generally given by computer manufacturers, but several months' practice on the job is usually required before a trainee becomes fully effective. It is estimated that at least thirty-two thousand systems analysts and programmers will be needed by 1970, rising to some sixty-three thousand by 1974. (These figures do not take account of possible technical improvements in automatic programming.) There were about six thousand in these occupations in 1964 – excluding service bureaux and machine manufacturers' services to customers.

The new jobs in A.D.P.

Systems analysts – who analyse the jobs computers are to do and devise the A.D.P. systems in broad terms – are mostly recruited by organizations from their own staff, generally with the help of aptitude tests. The work requires a good knowledge of A.D.P. techniques and a sound understanding of the employer's business. Good systems analysts are hard to get.

Programmers – who convert the systems analysts' plans into detailed instructions for the computer – are also recruited for the most part from the employer's own staff as trainees. They, too, require special aptitudes, which are found more in youth than later life. At present, the survey found, most employers regard their A.D.P. staff as eligible for promotion or transfer to other work within the organization, but if in the long-term a shortage of programmers compels more specialization in this work, those still in programming at middle age may become badly frustrated in their work. This may be avoided by recruiting potential programmers more and more from school leavers and making sure that they get adequate training at an early stage.

The existing ratio in the numbers of data processing managers, systems analysts and programmers is about 1 : 3 : 6 (excluding service bureaux and manufacturers' services to customers) and for some time to come it appears that career prospects are likely to be good while A.D.P. contines to expand.

Future machine developments

New and important machine features may affect office manpower, the survey states; especially automatic character recognition – equipment capable of reading original documents and passing the information straight into A.D.P. equipment – and high-speed data transmission. Such devices are not yet fully developed, but they may, if successfully exploited, have a direct effect on manpower, especially on the number of machine operators needed to translate data into punched-cards or paper tape. At the time of the survey there were 11,000 operators on this work – nearly a half of all A.D.P. staff.

Computers can make special demands in terms of hours of work. Some of the very large ones are now operating day and night seven days a week; most of the small ones are used only for normal office hours. Although in theory much rests on getting a reasonable relationship between the cost of the computer and the additional expense of running it outside normal office hours, in practice less precise factors, such as reluctance to depart from traditional hours, the wishes of staff, and the difficulty of arranging meals and transport for shift workers play a larger part in the issue.

Development of shift working

In these circumstances departures from normal working are forced on some users by the stresses of rising volumes of work for computer processing. Thus there are indications that between one-half and a third of A.D.P. users are employing or expect to employ their operators in shifts, usually in the day-time, with spells of duty overlapping.

The numbers needed for the actual operation of a computer and its peripheral equipment are comparatively few, ranging from one or two to about a dozen, depending on the size of installation. Other machine operators in A.D.P. installations, mainly those employed on punching cards or paper tape, are for the most part expected to work only normal office hours. The same is true of systems analysts and programmers, though they may be liable to rather more overtime or to working at odd hours, mainly to test computer programmes. In sum, the present trends do not indicate that the need to work abnormal hours will create any insuperable problems.

The Ministry's absorbing and interesting survey concludes with the view that, on the whole, it seems evident that the effect of computers on office employment in the next ten years will be to offer some relief to a growing shortage of office workers.

Britain's Part in the Development of Double Taxation Relief

by ROBERT WILLIS, C.B., C.M.G.
Deputy Chairman, Board of Inland Revenue

INCOME tax was first imposed in Great Britain in 1799. It was abolished in 1815 but reintroduced as a temporary measure in 1842. For some years there were high hopes that it would indeed be temporary but these hopes gradually faded. The tax, however, still expires at the end of each financial year and must be reimposed for the ensuing year by fresh legislation. But so far Parliament has never failed to reimpose it, and I think we must recognize that this perfect solution to the problem of double taxation is unlikely to be adopted.

So far as I know, double taxation of income was not an issue in the period up to 1815, but it is now over a hundred years since it first gave rise to complaints in Britain. In 1860 income tax was introduced in British India and in 1861 the first protests began to arrive from residents of the United Kingdom who had become liable to income tax both in Britain and in India upon income and profits arising in India. These complaints were the subject of debate in the House of Commons, when the general view seems to have been that the United Kingdom income tax, which had already been in existence for nearly twenty years, ought not to be altered just because another country chose to adopt the same system of taxation. The Chancellor of the Exchequer of the day apparently recognized that there was a problem here which might well be further investigated; but nothing came of it and the matter was allowed to drop.

First Double Tax Agreement

Ten years later, in 1872, Great Britain made its first double taxation agreement. The agreement was with the Swiss Canton of Vaud and related to death duties – that is, so far as Great Britain was concerned, the legacy and succession duties. It was a rather curious agreement, possibly because the officials of the Inland Revenue were never consulted about it. The apparent intention was to protect the estates of British subjects, who happened to die while temporarily resident in the canton, from being charged to the cantonal death duties on property situated in Britain and elsewhere. However, it subsequently emerged that a foreigner residing in the Canton of Vaud could technically remain a temporary resident for as long as he pleased, provided that he abstained from making a formal declaration of his intention to establish his domicile in the canton.

This was highly satisfactory to the many British subjects who retired to that beautiful region, but some years ago the cantonal authorities came to feel that the treatment which these British subjects enjoyed was unduly generous and represented to us that the agreement should be terminated. We felt bound to agree that the canton's case was a good one and the agreement was terminated in 1958 after a life of over eighty years.

The next landmark in the double taxation field in Britain was also concerned with death duties. I doubt whether it was recognized as a landmark at the time, but it was in fact the first introduction into the British tax system of relief for double taxation by way of credit. In 1894 the British estate duty was introduced and provision was made in the legislation for duty charged in other countries of the British Empire on property situated in those countries to be deducted – that is, allowed as a credit – against the British duty on the same property.

It was a condition of the relief that the rules governing the situation of property for death duty purposes must be the same in the colony as in Great Britain, and thus to some extent limited the scope of the operation. Nevertheless, the system established in 1894 was still applicable in relation to a considerable number of countries in what we now call the Commonwealth right up to 1962. In that year it was decided that the relief should be generalized and a unilateral credit system on conventional lines is now in operation and applies to foreign countries as well as to countries of the Commonwealth.

Repeated Representations

To return to the income tax, in the 1890s a number of countries within the British Empire began to impose taxes on income and in the following years repeated representations were made to Parliament on the subject of double taxation within the Empire. The problem was discussed in Parliament from time to time but all suggestions for giving relief were resisted by the Government. Thus, in one of these debates in 1907, Mr Asquith, then Chancellor of the Exchequer, argued that if a man for reasons of his own resided in the United Kingdom and enjoyed the protection of British laws it was only fair that, in consideration of this voluntary act on his part and the protection extended to

him by the Government, he should contribute income tax on the whole of his income wherever that income arose.

In 1911 the question was discussed at an Imperial Conference of Colonial Prime Ministers. On this occasion the British attitude was somewhat less rigid, though the effective result was the same. The Chancellor of the Exchequer, who was now Mr Lloyd George, expressed sympathy with the suggestion that double taxation should be abolished within the Empire but said that he could not afford to make any remissions of British tax.

It is noteworthy that such discussions as there had been in Britain in these early days on the question of eliminating double taxation had all been directed to the problem of double taxation within the Empire; there seems to have been little, if any, concern about the situation of a United Kingdom taxpayer whose income had been taxed in a foreign country. There were a number of reasons for this. In the first place, no doubt, the great mass of British investment abroad was in countries of the British Empire, so that it was to be expected that the main demand for double taxation relief should arise out of taxation in the colonies. Further, few countries at that time imposed a general income tax comparable to that imposed in the United Kingdom, where residents of the country were charged on their income from all sources, whether it arose in Britain or abroad (income flowing to non-residents from Britain being also charged).

It is true that some countries did have a graduated tax on total income, but they relied also on impersonal or schedular taxes on particular categories of income which had no counterpart in the United Kingdom. In any case, rates of tax were relatively low and one can only infer that such taxes as British residents suffered in foreign countries were not so heavy as to cause the taxpayer serious concern. I am speaking, of course, of double taxation as between the United Kingdom and other countries. The problem of double taxation was no doubt more serious as between continental countries with close economic ties and broadly similar systems of taxation, and already towards the end of the nineteenth century certain agreements for the avoidance of double taxation had been made between such countries.

Finally, taxation within the British Empire taken as a whole was considered to be on rather a special footing. The Empire was conceived of as essentially a single homogeneous unit and it could thus be argued with some force that it was inequitable to require a taxpayer to make two contributions of income tax for purposes which could be regarded as in some measure a single purpose, namely, the well-being of the British Empire.

This, then, was the situation fifty years ago: considerable anxiety about double taxation within the Empire, but so far nothing done about it.

Important New Factor

Then came the First World War. Rates of income tax in Britain rose steeply, and new or increased taxes were imposed in other parts of the Empire also. But perhaps the most important new factor was a technical change in the United Kingdom tax law. Up to 1914, a United Kingdom resident who derived income from overseas investments was not automatically charged to tax on the full amount of the income; he was charged only on the amount of income actually remitted to this country. If the income was taxed in the country where it arose he could avoid double taxation by leaving it there – that is, if he could afford to do without the immediate use of the income. In 1914, however, the income tax charge was extended to the whole of the income from investments abroad, whether or not it was brought into the United Kingdom (there were certain exceptions which I need not go into).

As a result of these changes the incidence of double taxation began to cause great dissatisfaction and the Government decided that something must be done. In 1916 legislation was passed giving relief from United Kingdom tax where a person had paid both United Kingdom tax and 'colonial' tax – that is, tax in an Empire country – on the same income. Briefly, relief was given on the doubly taxed income at the colonial rate of tax, but it was provided that

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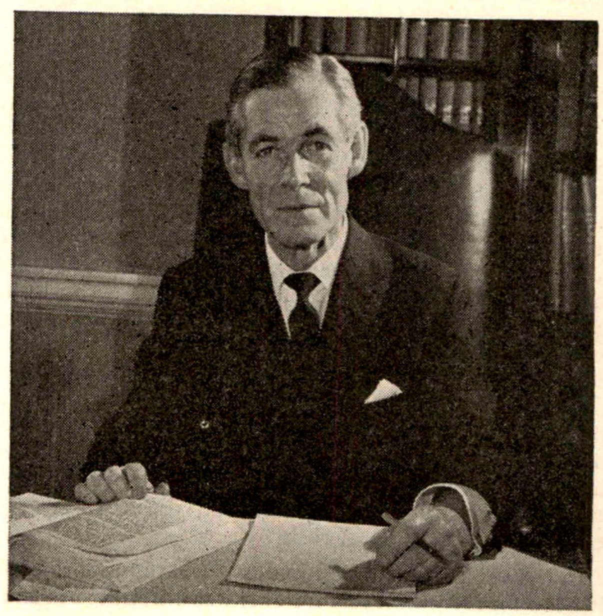

the United Kingdom rate was not to be reduced as a result below 17½ per cent; the standard rate of income tax at the time was 25 per cent.

The main defect of this arrangement was that it brought no relief to the less wealthy taxpayers whose rate of United Kingdom tax was in any case less than 17½ per cent; and from the United Kingdom's standpoint it was also a defect that the whole burden of relieving the double taxation within the Empire fell upon the United Kingdom. The arrangement, however, was regarded as no more than a temporary expedient, which was not to prejudice future consideration of the relative claims of the exchequers of the United Kingdom and the Dominions. An Imperial Conference in 1917 recommended that the question of relief for double taxation within the Empire should be taken up as soon as the war was over.

Royal Commission

Early in 1919 a Royal Commission was appointed to inquire into all aspects of the British income tax. The Commission appointed a sub-committee to consider the problems of double taxation within the Empire, and representatives of the self-governing Dominions – that is, Canada, Australia, New Zealand, South Africa and India – were added to the sub-committee. The final outcome of these discussions was the introduction in 1920 of the scheme of 'Dominion income tax relief', which for the next twenty-five or thirty years was the means adopted for avoiding double taxation within the Empire. Under this system the United Kingdom gave full relief for Dominion tax against United Kingdom tax where the Dominion rate was less than one-half of the taxpayer's appropriate rate of United Kingdom tax; where the Dominion rate was higher than this the relief was limited to half the United Kingdom rate.

It is worth noting that the relief was not confined to United Kingdom residents or to income arising in the Dominion as opposed to the United Kingdom. The test was simply whether the income was subject to both United Kingdom tax and Dominion tax; if it was, the United Kingdom gave relief.

As I have said, the relief was limited to half the taxpayer's rate of United Kingdom tax. The discussions in the sub-committee took place on the footing that it was in the common interest of all parts of the Empire that double taxation should be eliminated and that any sacrifice of revenue necessary to remove hardship should be a mutual sacrifice. The United Kingdom was prepared to assume the major part of the burden in order to secure agreement, but it was part of the scheme as envisaged by the sub-committee that, where surrender of half of its tax by the United Kingdom still left the taxpayer subject to some double taxation, the Dominion would give the further relief necessary to wipe out the lower of the two taxes. Thus it was envisaged that if the United Kingdom rate was, say, 25 per cent and the Dominion rate was 15 per cent the United Kingdom would give relief of 12½ per cent and the Dominion would give the balance of 2½ per cent. The scheme as passed into law, however, did not make this reciprocity a condition of relief.

In the result not all Dominions made provision in their own law for reciprocal relief. Relief was introduced in India, and similar provision was usually made by the colonies – that is, the dependent territories as distinct from the self-governing Dominions. In the case of the colonies the effect was often to limit their regular rate of tax to half the rate in force in the United Kingdom; if the colony's main source of tax revenue was the profits of United Kingdom companies operating in its territory, there was little to be gained by imposing a rate of tax higher than half the United Kingdom rate, since it would be inoperative in relation to the United Kingdom companies.

Conflict of Views

Those Dominions which criticized the concept of reciprocal relief could fairly claim that they were already avoiding double taxation in other ways. Australia, for example, based its tax system exclusively on the principle of the origin or source of the income, and did not tax the overseas income of its residents. It held strongly to the view that the country of origin had the primary right to tax, to the exclusion, if necessary, of the country of residence of the recipient; in the discussions in the sub-committee it argued that if taxation on a residence basis was also admissible, Australia had already made its proper sacrifice in any reciprocal arrangement within the Empire by not taxing on that basis. (In fairness to Australia I must make it clear that, despite these views, she did subsequently provide reciprocal relief.)

To this it was replied that no State could be expected to surrender the right to tax its own residents, particularly as the exemption of overseas income would be incompatible with the principle – to which the United Kingdom attached great importance – of 'ability to pay'. The United Kingdom could not accept a situation in which the total burden of income tax borne by one United Kingdom resident was greater than that borne by another resident with the same income merely because part of the latter's income was derived from another part of the Empire where rates of tax were lower than in the United Kingdom. And, quite apart from the principle of ability to pay, the acceptance of an exclusive origin basis would have thrown the cost of eliminating double taxation almost entirely on the United Kingdom.

Here we see already the conflict of views between the capital-importing and capital-exporting countries which emerged so clearly in the following years in the international discussions held under the auspices of the League of Nations.

The solution by means of a credit system, to be given by the country of residence, was also ventilated in the sub-committee's discussions. This, too, appeared unacceptable to the United Kingdom because it would place the home exchequer at the mercy of the country of origin, which would be able to increase its rates of tax on the non-resident entirely at the expense of the country to which the non-resident belonged. The United States had introduced a unilateral credit system for foreign taxes at about this time, but to the United Kingdom at least such a relief seemed extraordinarily generous as well as rather rash.

The sub-committee in which these discussions took place was only concerned with the problem of double taxation within the Empire. The Royal Commission itself

also considered the problem in relation to foreign countries, but they did not regard it as so urgent since the factor of the mutual interest of all parts of the Empire in the well-being of the Empire as a whole was not present in the case of foreign countries. Furthermore, they rightly foresaw serious difficulties in working out acceptable solutions. Their conclusion was that any change could only come about as the result of reciprocal arrangements between the United Kingdom and particular foreign countries, and that such arrangements could only be arrived at by means of a series of conferences, possibly (they suggested) under the auspices of the League of Nations.

Work of League of Nations

This was in 1920. As is well known, the League of Nations began its work on the avoidance of double taxation in the following year. Sir Josiah Stamp, a former official of the British Board of Inland Revenue who had later been a member of the Royal Commission on the income tax, was one of the four distinguished economists who undertook the first, theoretical, study of the problem.

This is not the occasion for discussing the economists' work in detail, but it will be recalled that they put forward the principle of 'economic allegiance' as the ideal basis for deciding how an individual's total tax liability – calculated according to his ability to pay – should be divided between competing States. The factors which they considered should be primarily taken into account for this purpose were the place in which the income arose, and the place in which the taxpayer was resident. They drew attention to certain other factors, but considered that origin and residence were the most important ones. They went on to suggest four methods by which double taxation might be eliminated in the practical world.

The first was the method of tax credits to be given by the country of residence, which had already been adopted by the United States. The second method was to exempt all income flowing from the country of origin to non-residents; thus the whole of a taxpayer's income would be taxed in the country of his residence and would be taxed in that country only. The third method was to divide the tax on some agreed basis between the country of origin and the country of residence – the kind of arrangement which had been adopted in the Dominion income tax relief. The fourth method was to assign certain types of income by agreement to the country of origin, while other types of income going from that country to non-residents would be exempted; the country of residence would retain the right to tax income which had already been taxed in the country of origin but would give credit for that tax.

This last method is, of course, the method which in the end has proved most generally acceptable. The economists themselves, however, favoured the pure residence basis, that is, the exemption of the non-resident from tax in the country of origin of the income. They did not claim that this was necessarily the best solution from a theoretical standpoint but they regarded it as the most practical solution of the difficulties of double taxation.

It is a fair comment that the four economists came from developed countries whose interests were likely to be best served by the pure residence basis. When the problem was handed over for further consideration to a wider body of technical experts (representing Governments) it soon became clear that many countries, and particularly, of course, the debtor countries, were still firmly committed to the principle of taxation on the basis of origin. The technical experts came to the conclusion that no single solution was possible to the problem of double taxation owing to the different fiscal systems of different countries.

Later, a further committee of technical experts reviewed the matter and largely endorsed the conclusions of the first body. Subsequently the approach of different countries was illustrated by the drafting of three model conventions giving different degrees of weight to the competing principles of origin and residence.

The United Kingdom took part in all these technical discussions, and also in the work of the Fiscal Committee of the League of Nations which was subsequently established as a permanent body. We continued, however, to support the pure residence basis throughout these discussions; but it must be confessed that the British representative's was a lone voice.

The result of this difference of opinion between the United Kingdom on the one hand and the other European countries on the other was that all attempts made by the United Kingdom to reach comprehensive double taxation agreements came to nothing, and thus between the wars the United Kingdom made no general double taxation agreement with any overseas country.

Important Exception

I hasten to say that there was one very important exception, namely, the agreement which was made in 1926 between the United Kingdom and the Republic of Ireland, then known as the Irish Free State. When the Irish Free State was set up it continued to follow the United Kingdom system of taxation and, as financial and economic relations between the United Kingdom and the new State remained closely intertwined, it was clear that double taxation would arise in an acute form unless special arrangements were made.

At first temporary arrangements were adopted on the lines of the Dominion income tax relief, but the agreement of 1926 adopted the principle of residence in its entirety. An Irish resident is totally exempt from United Kingdom income tax, and a United Kingdom resident is totally exempt from Irish income tax. This agreement is still in force, and I believe it is the only one of its kind. The two countries themselves made different arrangements, importing the concept of permanent establishment and relief by way of credit, when in 1949 an agreement was concluded in regard to double profits tax – that is, the taxes which by then both countries were charging on company profits in addition to income tax.

I might mention here that we also have arrangements with the Irish Republic for avoiding double stamp duties. This is a form of double taxation which has not aroused much international concern, but in Britain the stamp duties used to be an important source of revenue and even today they still produce some £75 million a year. There are similar stamp duties in force in the Irish Republic, and also in Northern Ireland which imposes its own stamp duties separate from those operative in Great Britain (that is, in England, Wales and Scotland). Since 1923, therefore,

arrangements have been in force between the three taxing authorities under which each accepts the stamp duty paid on a document in one of the other countries as satisfying its own duty on the same document. If its own duty is higher than the duty already paid, only the difference between the two rates is charged. In short, it is a credit system.

I said just now that apart from the Irish agreement Britain made no general double taxation agreement between the wars. We did, however, make a considerable number of agreements for the reciprocal exemption of shipping profits, following the example of the United States, which as early as 1921 took power to exempt foreign shipping from United States tax on a basis of reciprocity. In this limited field the residence basis soon became widely accepted, at any rate by countries with important shipping interests, as the best solution to the special difficulties in the field of double taxation which arose in the case of international shipping.

This solution accorded with the general views of the United Kingdom, and between 1923 and 1939 we made agreements with the United States, Canada and about ten other countries. The agreement with the United States was the first occasion on which the United Kingdom had made arrangements with a foreign country, as distinct from the Dominions, for the relief of double income tax. In 1931 power was taken to make similar agreements in regard to profits from air transport, and agreements were subsequently made with France, Germany and the Netherlands.

We also, from 1930 onwards, made a number of agreements for the reciprocal exemption of profits arising to non-residents through certain agencies. I need hardly remind you of the creative work which was being done at that time in the Fiscal Committee on such subjects as the allocation of income and the concept of permanent establishment. In the United Kingdom we perhaps looked rather sceptically at such a novel phrase as 'permanent establishment', I think that our predecessors might be surprised to see the highly sophisticated definition which now appears in the model convention of the O.E.C.D., the Organization for Economic Co-operation and Development. In the conditions of 1930 it seemed sufficient to provide in the agreements that the non-resident should not be liable to United Kingdom tax in respect of profits arising through an agency in the United Kingdom unless the agent held a stock of goods in the United Kingdom or – to quote the actual words – he 'has and habitually exercises a general authority to negotiate and conclude contracts'. I am glad that this familiar phrase still lives on in one corner of the O.E.C.D. definition.

Change of View

Thus all the limited agreements which the United Kingdom entered into between the wars allocated the right to tax to the country of residence. Nevertheless the United Kingdom came at last to the view that it would be in our interests to enter into comprehensive double taxation agreements even though it meant deviating from a principle to which we had been so firmly committed. It was clear that our views were not shared by other countries (including the United States) which had been entering into reciprocal arrangements which gave far more weight to the principle of origin. During the Second World War, rates of tax had risen to great heights all over the world, and the double burden could no longer be regarded as tolerable. Britain's foreign earnings would be of vital importance to her economy in the post-war world, and British traders operating overseas would be at a serious disadvantage if they continued subject to double taxation while their competitors were relieved. In 1944, therefore, in response to an approach from the United States, Britain entered into negotiations and in 1945 our first comprehensive double taxation agreement was signed. The League of Nations model convention which held the field at that time was the Mexico draft, which relied rather heavily on the origin principle; the United Kingdom's agreement with the United States gave considerably more weight to the residence principle, and I think one may say that that agreement had its influence on the final League of Nations model, the London draft, which was produced in 1946.

Once a start had been made, we moved fairly quickly, and before long we had agreements with most of the countries of the Commonwealth; agreements with other European countries followed more slowly. We now have over sixty agreements for the relief of double taxation on profits and income. Most of these were made before the Fiscal Committee of the O.E.C.D. completed its model convention but, for the most part, our agreements are substantially in line with the O.E.C.D. recommendations (although there are variations), and when we make agreements with additional countries, or revise existing agreements, we seek to follow the O.E.C.D. model as closely as possible.

I might say in passing that we also have nine death duties agreements with other countries – that is, for the avoidance of double taxation of the estates of deceased persons. As I mentioned earlier, credit for overseas death duties is now given unilaterally where there is no agreement.

Guarded Reaction

I should perhaps confess that when the proposal to set up a Fiscal Committee of what was then the Organization for European Economic Co-operation was first put forward, the United Kingdom reaction was somewhat guarded. A great deal of work had already been done in the League of Nations and subsequently in the United Nations, and we doubted whether much profit would arise from studying further refinements. We had, for example, some reservations about the possibility of producing a model convention that could be put into effect among all the members of O.E.E.C. multilaterally (though I may say that we are now playing a full part, in co-operation with other members of the European Free Trade Association and Finland, in a study of the possibility of drawing up an acceptable multilateral convention). However, once the Fiscal Committee had been set up, I think it is fair to say that the United Kingdom has taken a full share in the work, particularly in regard to the attribution of business profits and the definition of permanent establishment. If I was asked what has been the characteristic British contribution I would say that our wide experience in double taxation negotiations, derived from the large number of agreements we have concluded, has enabled us to contribute valuable comment from the viewpoint of the practical administrator.

I must say a few words about the United Kingdom arrangements for giving credit for overseas taxes. It was originally provided that relief by way of credit should only

be allowed in the context of a double taxation agreement; given that the cost of eliminating double taxation ought to be shared equitably between the two countries, it seemed that the credits to be given in the country of residence (which are part of the cost) should be one of the factors to be brought into account in arriving at an agreement. But after the first wave of agreements had been concluded it became apparent that future progress was going to be considerably slower, particularly when it was a question of negotiating with countries whose tax codes were not so closely comparable with our own as those of the English-speaking countries. Pressure developed for relief to be given unilaterally to the United Kingdom resident when there was no agreement with the country from which he derived the income.

Limits Removed

In 1950, therefore, legislation was passed under which credit for overseas tax – whether paid in a Commonwealth country or a foreign country – would be given against the United Kingdom tax on the same income, whether or not a double taxation agreement with the other country was in force. At the same time the Dominion income tax relief was abolished. The new relief was at first limited to one-half of the rate of United Kingdom tax, but as income arising within the Commonwealth had enjoyed favourable treatment for over thirty years, it was considered desirable to maintain this preference and the limit was raised to three-quarters of the rate of United Kingdom tax where the overseas tax was paid to a Commonwealth country. In 1953, following a recommendation made by the Royal Commission on the Taxation of Profits and Income, these limits were removed, and since then credit has in all cases been given for the whole of the foreign tax, subject, of course, to the limitation that it should not exceed the United Kingdom tax on the same income.

One further elaboration of our provisions for double taxation relief deserves a mention. Many developing countries have resorted to 'pioneer industry' reliefs under which a new industry may, for example, be exempted from tax for the first few years of its operation. The difficulty about these exemptions is that they are of no effective benefit to a non-resident enterprise if the payment of less tax in the developing country only means that it receives less credit in its home country; the beneficiary in such a case is the home country's exchequer. In order to prevent these pioneer reliefs being frustrated in this way the United Kingdom now has power to enter into agreements under which the tax given up by the developing country is treated for credit purposes by the United Kingdom as if it had been paid. We have so far made agreements with Pakistan, Israel, Malta, and Jamaica which include provision on these lines.

Changes Deriving from Corporation Tax

This address has been designed as a historical survey, and I have now reached the present day. As to the future, great changes are on the way with the introduction of the new corporation tax. The Chancellor of the Exchequer has discussed his taxation policy in an article in *European Taxation*, and I shall not repeat what he has said. But I might in conclusion say a few words about the implications of the new system for our double taxation agreements.

The important feature here is the new treatment of dividends, which springs from the separation of the taxation of the company from the taxation of the dividend paid to the shareholder. Up till now the United Kingdom has never levied a separate tax on dividends, whether paid to its own residents or to residents of other countries, over and above the tax charged on the company's profits. Thus, unlike many other countries, we had no withholding tax on dividends going to non-residents; the United Kingdom tax which is deducted by the company paying the dividend is, in fact, no more than the income tax on the company's profits, passed on in effect to the shareholder.

With the introduction of the corporation tax we shall have a taxation system comparable to that of most other countries. There will be a tax on dividends quite separate from the tax on the profits of the company. This means that we shall have to seek revision of all our double taxation agreements which say nothing about the United Kingdom's right to levy a withholding tax but restrict the other country to a prescribed limit. When the necessary revisions have taken place it should be easier to deal with dividends in future agreements because our taxation system will be more in conformity with the system of the country with which we are negotiating.

Review of Agreements

We shall also have to review a large number of our agreements which provide specifically that neither the United Kingdom nor the other country is to impose any tax on dividends over and above the tax charged on the company's profits. To what extent we shall be content with the existing provisions in this type of agreement, and to what extent we shall seek to introduce reciprocal rates of withholding tax, I cannot at this moment say.

It may take some time to secure the revision of all our agreements which restrict the other country to a prescribed rate of withholding tax but impose no such limitation on the United Kingdom. It has therefore been decided, as the Chancellor of the Exchequer has announced in the House of Commons, that legislation will be introduced in the next Budget so that, for the time being, we shall restrict our rate of withholding to whatever level the agreement imposes on the other country.

It is also provided in many of our agreements that a shareholder resident in one country and drawing dividends from a company resident in the other shall be given credit, not only for the other country's withholding tax on dividends, but also for the tax which the company has to pay on the profits out of which it finds the dividends. This system of giving relief to the shareholder in respect of tax paid by the company is inherent in the present United Kingdom system, and such relief was given generally under the old scheme of Dominion income tax relief. The introduction of corporation tax, separating the taxation of the company from the taxation of the shareholder, renders a relief of this kind inappropriate except where the shareholder is a company with a genuine trade investment in the company paying the dividend. Here again we shall have to seek the revision of all relevant agreements.

Over the last twenty years the United Kingdom has been very active in the field of double taxation relief, both in bilateral negotiations and in the international discussions in O.E.C.D. and elsewhere. It is clear that future arduous days lie ahead.

Reviews

Transport Finance and Accounting

by G. A. LEE, B.SC.(ECON.), F.C.A.

Sir Isaac Pitman & Sons Ltd, London. 32*s* 6*d*.

Every now and again amongst the great number of books which are produced each year, one finds an outstanding work in its own field. Mr Lee's book is such a one. Although it purports to deal with the accounting requirements of transport undertakings primarily, in fact it is a study of immense use to anyone seeking to understand just why the financial structure of a business is built up in the way it is, what are the meaning and purpose of reserves, and many other familiar accounting terms, and instead, as so often, of starting from mere mechanical book-keeping, it concentrates on the real needs of business men to understand and interpret an annual balance sheet and profit and loss account.

Naturally all this is in the context of transport; but to meet such a book is so rare, that one can only recommend it as something which all accountancy Final students ought to read for the good of their souls, and it is one of perhaps but half a dozen books which one can give to non-accountant friends or clients to help them understand what accountancy really tries to do.

Without venturing beyond the threshold of the even more fascinating field of management accounting, this book covers almost all facets of public accounting and the interpretation of accounts, including those of public transport undertakings, without becoming dull. References to the English Institute's Recommendations on Accounting Principles, the 1948 Companies Act and the Nationalized Industries' regulations, complete a most excellent work.

Revenue Law

Second Edition by BARRY PINSON, LL.B., F.T.I.I., Barrister-at-law.

Sweet & Maxwell Ltd, London. £3 15*s*.

The appearance of a second edition of this most excellent survey of the main branches of revenue law, at a time when many practitioners are struggling to discover some sense of logic and consistency in the face of the far-reaching changes of the 1965 Finance Act, is most appropriate.

It is not possible, of course, within the compass of a single volume – even of 600 pages – to explore every facet of the subject, but there are now eight broad sections to the book: income tax, surtax, capital gains tax, profits tax, corporation tax, estate duties, stamp duties and tax and estate planning. Customs and excise (though excise was once part of the general body of the Inland Revenue duties) are not covered, but perhaps may join the remainder in some future edition.

The author, a lecturer in his chosen subject, has done well in making his subject readable and has given a number of excellent examples. It is, however, in the general working-out of a philosophy of taxation and in the clear and logical progression of the work, that the real value to the reader may be found – a value not least to the accountancy student as additional reading during studies in order to obtain a wider appreciation of what is often regarded as a 'dry' subject. Moreover, the new chapters in this edition are a welcome aid to the assimilation of the new tax structures and of the way in which they fit into the general pattern of taxation in the United Kingdom.

In the final section on tax and estate planning, Mr Pinson covers many points which settlors need to remember, and he clearly defines the validity of tax mitigation in what is a puzzling, contradictory and often quite unfair system of taxation.

Business Report Writing

by ELIZABETH SIDNEY.

Business Publications Ltd, London. 45*s* net.

There are few situations more frustrating in professional and business life than to be able to extract the utmost significance from facts and figures but not to have the skill to express one's conclusions lucidly in the form of a written report. Happily this situation can be corrected and an almost painless way to do so is to read and study Miss Elizabeth Sidney's book.

Crisply she states the prerequisites for the task and explains how, after the material has been assembled, the report should be planned, written and presented. She follows these precepts with an analysis of a number of practical examples and ends with technical advice on typing, duplicating and proof correcting.

This is a manual to go on the permanent shelf with Fowler, Gowers, Vallins and Partridge.

Builders' Cost Control Bonusing and Accounts

by F. BRANDWOOD, A.C.W.A., A.M.B.I.M.

Gee & Co (Publishers) Ltd, London. 35*s*.

The first edition of this book, published in 1952, must have been of great assistance to many concerned with the production of figures relating to the building industry. It is no exaggeration to say that the secret of the success of any business depending on contracts as a source of income, must be accurate estimating for cost and profit and the continuous measurement of the actual costs against those estimates, contract by contract.

In this book the author goes to the bones of the matter

from the outset, starting with a description of the contract system and the documents required, and then defining the accounting records arising from the transactions involved.

One of the most difficult problems for the accounting in such businesses is the decision as to what profit ought to be taken on a contract which is uncompleted at an accounting date. Many contractors ignore profit altogether unless a job is over (say) 75 per cent complete, but for internal accounting purposes where long-period contracts exist, this may be unduly pessimistic and even misleading. Mr Brandwood suggests several practical alternative bases for such a calculation.

The chapter on depreciation, while it simplifies the whole question of a philosophy on the subject by ignoring rising price values, should kill the false assumption that this is something which need only arise when profits exist.

This is a very practical book and one to be highly recommended. The chapters on cost sheets, budgetary control and bonusing are particularly well worth study by those less experienced in accounting as such.

Accounting for Management Analysis

by DAVID H. LI.

Prentice-Hall International. London W1. 72*s*.

The prolific output of American writers on management accounting topics sometimes makes the task of selection a very difficult one and it is therefore a credit to the author of this book, an Associate Professor of Accounting at California State College, Fullerton, that it stands out as a distinctive contribution to the subject.

He assumes that many of his readers will not have a deep knowledge of accounting theory and accordingly devotes the early chapters to outlining fundamental principles, but these can safely be omitted by qualified accountants who will undoubtedly find much of interest in the later ones dealing with advanced control and planning techniques.

An unusual feature of this volume which marks it out in contrast to other management accounting textbooks is the sections at the end of each chapter containing questions and miniature case studies relating to those aspects of financial control which have been dealt with in the preceding paragraphs. The case studies are particularly valuable because they are generally based on actual business situations, many of them being drawn from the experiences of major American industrial and commercial concerns.

The wealth of examples and attractive typography aid the reader's task of mastering the contents of this thoroughly practical publication.

Education and the State

by E. G. WEST.

Institute of Economic Affairs. London. 40*s*.

The growing costs of State education have prompted suggestions that the beneficiaries thereof should contribute directly to the cost; more recently the suggestion has been made that students of institutes of higher education should be financed by loans rather than by outright grants. There is less support, however, for the view that primary and secondary education should be so financed. Dr West examines the historical evolution of the State system and the philosophy of those responsible for it, with particular reference to the decline of the private school and growth of the State system after the Forster Education Act, 1871. In the course of his historical analysis, Dr West poses a number of issues relevant to the present day, and concludes by advocating further consideration of the scheme put forward by Professors Peacock and Wiseman for the adoption of vouchers entitling parents to effective choice between State and private education. This is an interesting contribution to the present debate which is engaging members of the profession as well as laymen.

New Thinking in Management

by F. de P. HANIKA. An Administrative Staff College Publication.

Hutchinson & Co (Publishers) Ltd. 18*s*.

This small volume is the latest in a series from the Administrative Staff College at Henley. It originated in a report to the Committee of the European Productivity Agency on management education in Europe, aimed at providing a comprehensive yet concise statement on recent developments in management thought and techniques. The book introduces the underlying principles of cybernetics and systems analysis, and then expounds those of decision theory, simulation and O.R.

While the book is intended as an introduction, some readers without any background knowledge of this subject may find the text somewhat too concise for ease of comprehension, and occasionally the author uses terms with which the new-comer will not be familiar. However, anyone who has attended a brief course of lectures, or read one or two elementary articles on modern management techniques, will find this work especially helpful in focusing his thoughts and helping him to appreciate the developments that have taken place and providing a guide to future study and reading.

SHORTER NOTICES

FISCAL SURVEY OF PANAMA. Report of the Joint Tax Program of the Organization of American States and Inter-American Development Bank. (Johns Hopkins Press, Baltimore: Oxford University Press, London. 60*s* net). This study of the Panamanian fiscal system, undertaken on behalf of the Organization of American States and the Inter-American Development Bank by a group of economists, summarizes in considerable detail the workings and limitations of a relatively young fiscal system. Students of public finance will find it an interesting case study, while the newly-qualified accountant attracted to the subject of taxation may learn much of interest about taxes in such areas.

BENHAM'S ECONOMICS. Seventh edition by F. W. Paish, M.C., M.A.(CANTAB.). (Sir Isaac Pitman & Sons Ltd, London. 20*s* net). This excellent textbook has held its place in a highly competitive market for over a quarter of a century. With the death of the author the preparation of the new seventh edition was entrusted to Professor Paish. The factual material has been brought up to date but in particular Professor Paish has largely re-written the chapters touching upon the economic scene in post-war Britain. For students

working with correspondence colleges for examinations in economics, as well as those who wish to have some understanding of current economic issues, this book can be recommended.

RECENT PUBLICATIONS

TAXATION IN WESTERN EUROPE, 1965. 285 pp. 8½×5½. Card covers. 30s. Confederation of British Industry, 21 Tothill Street, London SW1.

THE MAKINGS OF BUSINESS CONTRACTS, by A. Harding Boulton, LL.B., F.C.I.S. xi+178 pp. 8½×5½. £1 15s net. Sweet & Maxwell Ltd, London.

ACCOUNTING: BASIC FINANCIAL, COST AND CONTROL CONCEPTS, by W. T. Anderson, ED.D., C.P.A., C. A. Moyer, PH.D., C.P.A., and A. R. Wyatt, PH.D., C.P.A. xvi+808 pp. 9½×7. 68s. John Wiley & Sons Ltd, London.

CASE STUDIES, by E. C. D. Evans, B.SC.(ECON.), F.A.C.C.A., A.C.I.S., A.M.B.I.M. Pillars of Management Accounting Series, Vol. 4. xvi+128 pp. 8×5. 25s net. Macdonald & Co (Publishers) Ltd, London.

STATISTICS, by W. M. Harper, A.C.W.A., xv+293 pp. 7½×5. Card covers. 12s 6d. Macdonald & Evans Ltd, London.

INTERNAL AUDITING, third edition, by Walter W. Bigg, F.C.A., and J. O. Davies, F.C.A., A.C.W.A. ix+212 pp. 8½×5½. 25s net. H.F.L. (Publishers) Ltd, London.

COVENANTS, SETTLEMENTS AND TAXATION, third edition, by G. B. Graham, Q.C., Oyez Practice Notes No. 35; 94 pp. 8½×5½. Card covers, 17s 6d net. The Solicitors' Law Stationery Society Ltd, London.

ACCOUNTING STEP BY STEP, Book 2: Debit and Credit, by R. G. A. Boland, 144 pp; Book 3: Basic Cost Accounting, by R. G. A. Boland and J. A. Feathers, 159 pp. 8½×5½. Card covers. 12s 6d each. English Universities Press Ltd, London.

The Accountant Annual Awards

CLOSING DATE FOR ENTRIES FOR 1966 AWARDS

COMPANIES are reminded that they still have until January 31st to submit their reports and accounts presented at annual meetings held in 1965 for consideration for *The Accountant* Annual Awards to be made this year – the thirteenth year of the Awards.

Entries should be addressed to The Secretary, *The Accountant* Annual Awards, 151 Strand, London WC2. The only condition of entry is that companies' shares are quoted on a recognized stock exchange in the United Kingdom.

Panel of Judges

A large number of entries have already been received for the consideration of the Panel of Judges, which is under the chairmanship of Mr Roy Borneman, Q.C. This year the Panel has been joined by Mr J. A. Jackson, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, a practising accountant and a company director. He takes the place of Sir Richard Yeabsley who has now retired after six years' membership of the Panel. The other members of the Panel are:

Mr Robert Adams, C.A., a member of The Institute of Chartered Accountants of Scotland and a partner in a London firm of chartered accountants.

The Hon. J. F. H. Baring, a managing director of Baring Brothers & Co Ltd.

Mr W. G. Campbell, B.A., F.C.A., a former member of the Restrictive Practices Court and of the Council of The Institute of Chartered Accountants in England and Wales.

Mr A. S. H. Dicker, M.B.E., F.C.A., a Past President of The Institute of Chartered Accountants in England and Wales.

Mr J. E. Harris, B.COM., F.A.C.C.A., a Past President and a member of the Council of The Association of Certified and Corporate Accountants, and an industrialist.

Mr J. A. Hunter, M.B.E., T.D., a member of the Council of The Stock Exchange, London, and senior partner in a firm of stockbrokers.

Mr Ian T. Morrow, C.A., F.C.W.A., a Past President and a member of the Council of The Institute of Cost and Works Accountants; also a prominent figure in industry.

Mr Hilary Scott, Vice-President of The Law Society, a partner in a London firm of solicitors and a former member of the Jenkins Committee on Company Law.

Mr Arthur E. Webb, Editor of *The Accountant.*

Previous Winners

The Awards were instituted in 1954 to encourage the preparation by public companies of clearer and more informative annual reports and accounts. Awards have been made in past years to

1954 Thos. W. Ward Ltd.
1955 Ford Motor Co Ltd; Unilever Ltd.
1956 Associated Electrical Industries Ltd; Folland Aircraft Ltd.
1957 The United Steel Companies Ltd; Ross Group Ltd (then *Trawlers Grimsby Ltd*).
1958 Peninsular and Oriental Steam Navigation Company; John Dale Ltd.
1959 The British Oxygen Co Ltd; General Refractories Ltd.
1960 Vickers Ltd; Harveys of Bristol Ltd.
1961 Albright & Wilson Ltd; The Prestige Group Ltd.
1962 Rolls-Royce Ltd; Atkinson Lorries (Holdings) Ltd.
1963 Fisons Ltd; Southcros Ltd.
1964 Reckitt & Colman Holdings Ltd; Pasolds Ltd.
1965 Thomas Tilling Ltd; Wolseley-Hughes Ltd.

Finance and Commerce

Birmingham Small Arms Co

THE accounts of The Birmingham Small Arms Co Ltd, which form this week's reprint, cover a year during which results only just failed to match the record figures of 1960. In the interim, pre-tax profits have been down below the £ million mark. That was in 1962–63.

The return to what Mr Eric Turner, F.C.A., the chairman, describes as 'something approaching a reasonable level' of profitability does not mean any resting on laurels. Mr Turner maintains 'there is still considerable scope for further profit improvement if the group's potential is to be realized', and on that point he has little doubt that, unless something entirely unforeseen occurs, 'we shall achieve further substantial increases in turnover and profits'.

The reference to turnover is of particular importance since, for the first time, B.S.A. provides turnover figures. The chairman's statement contains the following turnover analysis:

	1964 £'000	1965 £'000
Orders received:		
Total, including inter-group	40,263	56,009
For outside customers	35,539	46,843
Sales:		
Total, including inter-group	37,745	47,949
To outside customers (divided as shown below)	33,112	40,336
Light engineering including motor cycles	47 per cent	48 per cent
Machine tools and small tools	28 ,, ,,	26 ,, ,,
Steel and metal manufacturers	23 ,, ,,	22 ,, ,,
Overseas companies	2 ,, ,,	4 ,, ,,

Direct exports, it is added, accounted for 32 per cent of turnover and, in value terms, were 40 per cent up on 1963–64. During the last three years the value of exports has been doubled.

Valuation Change

As the profit and loss account and Note 3 indicate, there has been a change in the basis of valuation of stocks and work in progress. 'The basis which we have hitherto adopted for accounts purposes', Mr Turner explains to shareholders, 'has been more conservative than that used for settlement of our taxation liabilities. This led to occasional distortions of the tax charge as a proportion of profits and we have decided to use the same basis as for taxation in future.'

The deduction of £68,214 for minority interests turns on the acquisition last February of 51 per cent of the capital of Johnson Motors Inc, B.S.A.'s motor cycle distributors for the western States of the U.S.A. The minority holding has been acquired since the balance sheet date.

Acquisition of the controlling stake in Johnson has affected the stocks and work in progress figure which is up by £2·1 million, but nearly half the increase is due to the change in valuation basis. Finance for the acquisition of the 49 per cent minority interest in Johnson Motors, incidentally, has been raised in the United States and any further major capital expenditure there will be similarly financed.

THE BIRMINGHAM SMALL ARMS COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
31st July 1965

		1965 £	1964 £
Assets less Current Liabilities			
Current Assets			
Stocks and Work in Progress (*note 1*)		11,072,435	8,943,046
Debtors		9,723,343	7,803,981
Government Securities – Market value £151,255 (£148,216)		151,808	151,808
Cash		282,317	281,173
		21,229,903	17,180,008
Current Liabilities			
Bank Overdrafts	2,271,645		1,831,683
Amount due under Acceptance Credit	500,000		500,000
Creditors	6,332,912		4,958,615
Taxation Provisions	1,392,878		934,564
Dividends	408,319		322,238
		10,905,754	8,547,100
Net Current Assets		10,324,149	8,632,908
Fixed Assets (*note 2*)		12,804,971	12,493,214
Trade Investments (*note 3*)		72,176	100,510
		£23,201,296	£21,226,632
Financed by			
Issued Capital of The Birmingham Small Arms Company Limited (*note 4*)		9,125,086	9,125,086
Reserves (*note 5*)		12,756,327	10,758,100
Stockholders' Investment in The Group		21,881,413	19,883,186
Tax Equalisation Reserve (*note 6*)		919,000	1,145,600
Minority Interests in Subsidiaries		277,433	300
Loan Capital – 4% Debenture Stock 1966 (Secured)		123,450	197,546
		£23,201,296	£21,226,632

THE BIRMINGHAM SMALL ARMS COMPANY LIMITED AND SUBSIDIARIES

NOTES ON THE BALANCE SHEETS

1 **Stocks** of raw material are valued at the lower of cost and nett realisable value. Work in Progress is valued at prime cost of material and labour plus a proportion of overheads. The basis for valuing raw material and labour remains consistent. A modified basis has been adopted for valuing overheads at 31st July 1965, resulting in a surplus of £489,621.

2 **Fixed Assets** of the Company and its United Kingdom subsidiaries are as revalued by the directors at 1st August 1960, with subsequent additions at cost. The movements of fixed assets were as follows:

THE GROUP [Page 23]	1965 Freehold Land and Buildings	1965 Leasehold Land and Buildings	1965 Plant, Machinery and Equipment	1965 Total	1964
	£	£	£	£	£
Balance at 31st July 1964	6,059,858	194,991	9,732,186	15,987,035	15,090,803
Additions during the year to 31st July 1965	451,601	9,879	1,041,126	1,502,606	1,026,501
	6,511,459	204,870	10,773,312	17,489,641	16,117,304
Deduct: Sales and Disposals during the year	7,256	—	241,732	248,988	130,269
Total cost or valuation at 31st July 1965	6,504,203	204,870	10,531,580	17,240,653	15,987,035
Deduct: Depreciation to date	544,757	13,915	3,877,011	4,435,683	3,493,822
Nett Book Value at 31st July 1965	5,959,446	190,955	6,654,569	12,804,970	12,493,213
Special Tools, Jigs and Dies				1	1
				£12,804,971	£12,493,214

THE COMPANY [Page 23]	1965 Freehold Land and Buildings	1965 Leasehold Land and Buildings	1965 Plant, Machinery and Equipment	1965 Total	1964
	£	£	£	£	£
Balance at 31st July 1964	1,636,568	187,456	1,922,137	3,746,161	3,977,496
Additions during the year to 31st July 1965	4,564,331	8,871	8,637,571	13,210,773	247,707
	6,200,899	196,327	10,559,708	16,956,934	4,225,203
Deduct: Sales and Disposals during the year	7,204	—	236,651	243,855	479,042
Total cost or valuation at 31st July 1965	6,193,695	196,327	10,323,057	16,713,079	3,746,161
Deduct: Depreciation to date	482,009	11,130	3,764,056	4,257,195	857,720
Nett Book Value at 31st July 1965	5,711,686	185,197	6,559,001	12,455,884	2,888,441
Special Tools, Jigs and Dies				1	1
				£12,455,885	£2,888,442

Expenditure on Special Tools, Jigs and Dies has again been charged against revenue.
Depreciation provided on fixed assets is calculated at fixed percentages;
Freehold and Leasehold Land and Buildings – at rates advised by independent valuers
Plant, Machinery and Equipment – according to the assessed life.

3 **Trade Investments** are unquoted and comprise, at cost less amounts written off:

		£
High Speed Steel Alloys Ltd	254,628 shares of £1 each	34,902
Metachemical Machines Ltd	60,000 shares of £1 each	20,000
Associates British Machine Tool Makers (Holdings) Ltd	83,015 shares fo £1 each	10,024
Others		7,250
		£72,176

4 **Share Capital**

	Authorised	Issued 1965	Issued 1964
	£	£	£
Preference Stock			
5 per cent £1 'A' Cumulative	203,150	203,150	203,150
6 per cent £1 'B' Cumulative	500,000	476,420	476,420
Ordinary Stock in 10/– units	10,000,000	8,445,516	8,445,516
	£10,703,150	£9,125,086	£9,125,086

5 **Reserves**

		The Group		The Company
		£		£
General Reserve } at 31st July 1964		7,000,000		6,500,000
Undistributed Profits } at 31st July 1964		1,593,851		853,993
		8,593,851		7,353,993
Tax Equalisation Reserve – surplus		194,000		194,000
		8,787,851		7,547,993
Deduct: Excess of purchase price of shares in subsidiaries over nett assets acquired less similar provision no longer required	148,660		18,134	
Amount written off Trade Investment	20,000		20,000	
Provision for contingencies on contracts	50,000	218,660	50,000	88,134
		8,569,191		7,459,859
Add: Retained Profits for the year		2,022,887		1,626,207
Revenue Reserves at 31st July 1965		10,592,078		9,086,066
Capital Reserve		2,164,249		2,092,452
Total Reserves		£12,756,327		£11,178,518

6 **The Tax Equalisation Reserve** was created as a result of the revaluation of assets in 1960 and now comprises:
(i) provisions for taxation on the excess of the book value of the fixed assets over their written down value for taxation purposes.
(ii) taxation adjustments on expenditure charged in the accounts not immediately allowable for tax.
In the year, the sum of £32,600 has been transferred, arising from the nett difference between allowances for tax purposes and amounts charged in the accounts.

7 **Subsidiary Companies**

	1965	1964
	£	£
Shareholdings	18,744,736	18,099,727
Advances, Current Accounts and Dividends receivable	540,179	3,612,841
	19,284,915	21,712,568
Less amounts owing to subsidiary companies	18,744,715	4,283,945
	£540,200	£17,428,623

8 **Certain Overseas Subsidiaries**, for good reasons, submitted audited accounts made up to dates prior to 31st July 1965 and adjustments have been made for intervening transactions. Foreign currencies have been converted into sterling on the following bases: Fixed Assets – at rate of exchange at date of acquisition; Current Assets and Current Liabilities – at rate of exchange at 31st July 1965.

9 **Contracts for Capital Expenditure** not provided for in these accounts are estimated at £410,000 (*£690,000*) for the Group including £409,000 (*£340,000*) for The Birmingham Small Arms Company Ltd.

10 **The Company has guaranteed** borrowing facilities up to £849,000 for certain overseas subsidiaries. At 31st July 1965 the contingent liability amounted to £204,000.

Revaluation

Not reflected in the balance sheet is a revaluation of group properties as at last Budget Day. The intention to revalue was reported by the company in an interim statement last March.

Completion of the revaluation shows a surplus over 1964 book values of £6,513,000. In addition, trade investments with a book value of about £72,000 were estimated to have a value of £696,000, making a total surplus of £7,137,000. The directors do not propose to write the new valuations into the books. Had the value been written in, the asset value of each 10*s* share at the financial year-end would have been about 34*s* 7*d*, excluding any surplus which might have arisen from a revaluation of plant and machinery.

Figures for the revaluation are provided by Mr Turner in his statement with the accounts. It is to be hoped that, unless the decision not to write the valuation into the accounts is changed, the 1965 valuation will be kept alive in future by a note to the balance sheet.

A further improvement in future reports would be the inclusion of a statistical record. Already set out, however, is a detailed list of the operating units in the organization grouped under the headings of tool, motor cycle, general engineering, heating, steel, metal components and research.

Heavy Spending

Behind the improvement in B.S.A.'s profits lies a heavy capital expenditure programme. In the year under review, capital spending totalled £1,502,000, against a depreciation

THE BIRMINGHAM SMALL ARMS COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st July 1965

	1965 £	*1964 £*
Group Profit before Taxation (*note 1*)	3,317,037	*1,606,001*
Taxation on Profit for the year (*note 2*)	1,121,755	*721,850*
Group Profit after Taxation	2,195,282	*884,151*
Minority Interests	68,215	—
Profit attributable to the Company	2,127,067	*884,151*
Exceptional items (*note 3*)	563,607	*95,140*
Balance Available for Appropriation (*note 4*)	£2,690,674	*£979,291*
Appropriations Recommended		
Dividends less Income Tax (*note 5*)		
Preference Stock	22,761	*23,730*
Ordinary Stock		
Interim (paid)	248,087	*206,915*
Final (recommended)	396,939	*310,373*
	667,787	*541,018*
Profits Retained (*note 6*)	2,022,887	*438,273*
	£2,690,674	*£979,291*

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1965 £	1965 £	*1964 £*	*1964 £*
1 Group Profit before Taxation includes:				
Dividends from Investments –				
Trade		75,499		*64,085*
Government Securities		4,551		*4,551*
Nett surplus on routine disposals of Plant, Machinery and Equipment		43,269		*76,994*
and is after charging:				
Depreciation		1,062,650		*1,021,353*
Auditors' Remuneration		20,628		*16,587*
Directors' Fees	11,500		*10,771*	
Directors' other Emoluments	76,760		*71,351*	
		88,260		*82,122*
Pensions to former Directors – as Executives		5,320		*5,320*
Debenture Interest		5,917		*8,873*
Overdraft Interest and Acceptance Credit Costs		164,896		*105,711*
2 Taxation based on the profits for the year				
UK Income Tax		28,914		*389,860*
UK Profits Tax		1,500		*144,800*
Corporation Tax – Provision at 35%		678,000		—
Overseas Tax		445,941		*157,000*
		1,154,355		*691,660*
Tax Equalisation being nett difference between allowances for tax purposes and amounts charged in the accounts		32,600		30,190
		£1,121,755		*£721,850*
The taxation charge for the year has been reduced by £118,000 (*£174,200*) in respect of Investment Allowances and by £60,000 in respect of a loss brought forward				
3 Exceptional Items				
Surplus on adoption of modified basis for valuing overheads in stocks and work in progress		489,621		—
Income attributable to previous years		—		*65,880*
Surplus taxation provisions of previous years		73,986		*29,260*
		£563,607		*£95,140*
4 Balance Available for Appropriation				
Amount dealt with in the accounts of the Company		2,293,994		*758,565*
Amount retained by Subsidiary Companies		396,680		*220,726*
		£2,690,674		*£979,291*
5 Dividends less Income Tax				
Preference Stock				
5% 'A' Cumulative		5,967		*6,221*
6% 'B' Cumulative		16,794		*17,509*
Ordinary Stock				
Interim 5% (*1964, 4%*)		248,087		*206,915*
Proposed Final 8% (*1964, 6%*)		396,939		*310,373*
		£667,787		*£541,018*
6 Profits Retained				
By the Company		1,626,207		*217,547*
By Subsidiary Companies		396,680		*220,726*
		£2,022,887		*£438,273*

provision of £1,062,000, and compared with the previous year's spending figure of £1,026,000. The outstanding commitments figure of £410,000 (against £690,000) gives a misleading impression since substantial spending on capital account is envisaged during the next year or two.

A further growth in export business is expected this year and, although the company cannot be precise about the value of indirect exports, Mr Turner considers 'it is probable that something approaching half the planned turnover in the current year will be directly or indirectly for export, which obviously provides a valuable cushion against any falling-off there may be in business at home'.

The final point to be made concerning the B.S.A. accounts is that, since Cooper Brothers & Co are the company's auditors, the auditors' report certifies the fact that in the auditors' opinion 'the books have been properly kept'.

CITY NOTES

AFTER twelve months of turmoil the stock-markets find themselves not very far removed from where they were a year ago. In the process, equity prices have yawed about and at one time threatened to capsize, but the end of the year found them on a relatively even keel.

An uncomfortable feature of the year was undoubtedly the paucity of equity turnover with uncertainties concerning general economic and industrial conditions the main influence, and the numbing effect of capital gains tax an incalculable, although obvious, factor.

One influence tending to lift prices, at any time when doubts were temporarily laid aside, has been the shortage of equity supplies brought about by the dearth of market replenishment by rights issues. Of the £700 million or so raised through the market, the vast bulk was raised through industrial fixed interest stocks and after the Budget the number of equity rights issues made was hardly more than a dozen.

The equity outlook in 1966 is hardly inspiring. There is a firmer appreciation by investors of the fact that industrial profits are, and will stay, under considerable pressure and that a static level of industrial output must mean lower industrial earnings. It remains to be seen just how far the market has already discounted the position but it will be surprising if the discounting process proves to have been overdone.

AN attack on the capital gains and corporation taxes, in defence of the small investor, has been made by Mr Andrew Carnwath, chairman of The Save and Prosper unit trust group at the organization's annual meeting. 'The capital gains tax', he said, 'is indiscriminate and disproportionately damaging to the smaller saver and investor. The corporation tax will throw out of balance the established mechanisms of the capital market in a way that is detrimental to the provision of risk capital'.

Mr Carnwath said he was convinced that important changes must be made to the 1965 Finance Act before it harmed the long-term prospects of the savings movement. As a result of tax changes, saving through unit trusts is 'a more complicated and less rewarding process'. Regular monthly investors will have 'an accountant's nightmare' in calculating their gains tax liability, while the Exchequer's gain in revenue from this type of investor will be small.

* * * *

WITH the Christmas cards still on the mantelpiece and New Year frivolities, as we write, yet to come, the City is already 'talking the Budget' and, more particularly, the likely rate of corporation tax. For the present there seem more people expecting the Chancellor to go to the top end of his forecast bracket than the bottom. The full 40 per cent is being gloomily predicted.

RATES AND PRICES

Closing prices, Wednesday, December 29th, 1965

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964	5%
Mar. 22, 1962	5%	Nov. 23, 1964	7%
April 26, 1962	4½%	June 3, 1965	6%

Treasury Bills

Oct. 22	£5	9*s*	0·62*d*%	Nov. 26	£5	7*s*	10·72*d*%
Oct. 29	£5	8*s*	9·59*d*%	Dec. 3	£5	7*s*	5·32*d*%
Nov. 5	£5	9*s*	2·67*d*%	Dec. 10	£5	9*s*	4·64*d*%
Nov. 12	£5	9*s*	4·09*d*%	Dec. 17	£5	10*s*	3·74*d*%
Nov. 19	£5	9*s*	2·90*d*%	Dec. 23	£5	10*s*	5·88*d*%

Money Rates

Day to day	4⅜–5⅝%	*Bank Bills*	
7 days	4¼–5½%	2 months	5⅞–5 15/16%
Fine Trade Bills		3 months	5⅞–5 15/16%
3 months	7–7½%	4 months	5⅞–5 15/16%
4 months	7–7½%	6 months	5⅞–5 15/16%
6 months	7¼–8%		

Foreign Exchanges

New York	2·80¼	Frankfurt	11·21⅝
Montreal	3·01 7/32	Milan	1750¼
Amsterdam	10·11 15/32	Oslo	20·01⅜
Brussels	139·07	Paris	13·73 5/16
Copenhagen	19·28¾	Zürich	12·09 13/32

Gilt-edged

Consols 4%	59⅞xd	Funding 3% 59–69	90 3/32
Consols 2½%	38½	Savings 3% 60–70	85 3/16
Conversion 6% 1972	99 11/16	Savings 3% 65–75	75 7/16
Conversion 5¼% 1974	91⅝	Savings 2½% 64–67	94 31/32
Conversion 5% 1971	92⅜	Treasury 5½% 2008–12	85 13/16
Conversion 3½% 1969	90 11/32	Treasury 5% 86–89	82 9/16
Conversion 3½%	53½	Treasury 3½% 77–80	74½
Funding 5½% 82–84	88⅞	Treasury 3½% 79–81	72⅝
Funding 4% 60–90	92 3/16	Treasury 2½%	38 11/16
Funding 3½% 99–04	58¾	Victory 4%	95¾
Funding 3% 66–68	91 1/16	War Loan 3½%	53¼

Current Law

Intestacy: Widow's Claim to Matrimonial Home

THE plaintiff in *Lall v. Lall* ([1965] 3 All E.R. 330) claimed possession of a dwelling-house. The defendant claimed that the plaintiff was a trustee of the property for the defendant's late husband and that she was entitled as against the plaintiff to occupy the house on the ground that it formed an asset of her husband's estate in which she had an interest, relying on section 5 and Schedule 2 of the Intestates' Estates Act, 1952, which confers on the surviving spouse of an intestate a right to have the matrimonial home appropriated to her or his interest in the deceased's estate. Her husband had died intestate in February 1964, but no grant of letters of administration had been obtained and the defendant was, apparently, unable to obtain one because she had not been able to provide a suitable bond.

The plaintiff sought to have the defence struck out on the grounds that it disclosed no reasonable cause of defence and would tend to delay the fair trial of the action, arguing that as he was the registered owner with absolute title at the Land Registry he was entitled to possession unless the defendant could show some good case against him, and that she was not setting out any right of her own but relying on the title of the personal representatives of her deceased husband if and when constituted.

Buckley, J., held that the defendant had no *locus standi* because she had no equitable interest in the matrimonial home recognizable by the law, but he stood the summons over to give an opportunity for a grant to be made to the Official Solicitor and for him to be added as a defendant who could defend the rights of the estate.

Gift to 'Child or Children': Adopted Child included

THE testator in *Re Jebb, Ward-Smith and Another v. Jebb and Others* ([1965] 3 All E.R. 358) gave his residuary estate on trust, after the death of his daughter, for (*inter alios*) 'such of them the child or children of my said daughter . . . as shall be living at the date of my death and shall attain the age of 21 years'. The testator made his will on October 7th, 1947. His daughter was then nearly 47 years of age, having been born on October 31st, 1900. She had been married in 1934, but the marriage was not consummated, and there had been a decree of nullity in 1938. She resumed her maiden name and lived with her parents.

On September 4th, 1947, she adopted a child, whom she had had with her since the previous April, when he was a fortnight old. As the will was made in 1947 the presumption which now exists (Adoption Act, 1958, section 16 (2) (*a*)) that 'child' in a will includes an adopted child did not apply: the relevant statutory provision was section 5 (2) of the Adoption of Children Act, 1926, which provided that: '. . . the expressions "child", "children" and "issue" where used in any disposition . . . shall not, unless the contrary intention appears, include an adopted child or children or the issue of an adopted child'.

In the circumstances of the case, the fact that it was extremely improbable that the testator's daughter would re-marry and have a child of her own, and the fact that the testator knew the adopted child, who was living with him, the Court of Appeal found that the testator intended the adopted child to benefit and that there appeared from the surrounding circumstances a contrary intention sufficient for the purposes of section 5 (2) of the Adoption of Children Act, 1926, to justify 'child or children' in the residuary bequest being read as referring to the adopted child.

Will: Condition as to Religion

THE testator in *Re Selby's Will Trusts, Donn v. Selby and Others* ([1965] 3 All E.R. 386) declared that 'no beneficiary under this my will who shall have married, or who before, or on attaining a vested interest shall marry out of the Jewish faith shall take any interest or benefit under this my will anything hereinbefore contained to the contrary notwithstanding'. Buckley, J., held that this was not a condition subsequent (which, it seems, would undoubtedly have been void for uncertainty), but a condition precedent to acquiring any benefit under the will.

That conditions precedent as to religion do not fail for uncertainty in the same way as conditions subsequent was shown by the decision of the Court of Appeal in *Re Allen Faith v. Allen* ([1953] 2 All E.R. 898) that a gift to the eldest of the sons of a named person 'who shall be a member of the Church of England and an adherent to the doctrine of that church' was valid, it being unnecessary, in order that the qualification should be satisfied, that its scope should be capable of exact definition: all that a claimant must do was to show that he, at least, was within the requirement.

Buckley, J., in *Re Selby's Will Trusts* found that to marry 'out of the Jewish faith' meant to marry someone who was not an adherent to that faith at the time of the marriage, and, following *Re Allen*, that membership of the Jewish faith was a sufficiently defined concept to make it clear that in many instances the Court would not have any difficulty in saying one way or another whether a particular person was or was not of that faith. Accordingly, the condition was not void.

Avoidance of Conveyance by Trustee in Bankruptcy

IN January 1961, Mrs M. contracted to purchase a dwelling-house, and it was shortly afterwards conveyed to her. The purchase price was £5,150, and the deposit of £515 was provided by Mr M., Mrs M.'s husband. The greater part of the purchase price was provided by the N. Society on mortgage. Mr and Mrs M. were both parties to the mortgage: she charged the land, he assigned an insurance policy as security, and both covenanted to repay the principal sum with interest. On December 18th,

1961, a receiving order was made against Mr M. and he was subsequently adjudicated bankrupt.

In *Re A Debtor, ex parte the Official Receiver, Trustee of the Property of the Debtor v. Morrison* ([1965] 3 All E.R. 453) the trustee in bankruptcy sought a declaration that the vesting of the property in Mrs M. constituted a voluntary settlement or transfer by Mr M. within the meaning of section 42 of the Bankruptcy Act, 1914, and was therefore void against the trustee. By virtue of subsection (1) of that section, settlements (with certain exceptions) made by a bankrupt within two years before the bankruptcy are rendered void against the trustee in bankruptcy; and such a settlement is equally void if made within ten years before the bankruptcy unless the parties claiming thereunder can show that the settlor was, at the time of making the settlement, able to pay all his debts without the aid of the property comprised in the settlement, and that the interest of the settlor in such property passed to the trustee of such settlement on the execution thereof.

Stamp, J., found as a fact that the purchase price of the house, less that advanced by the N. Society, was paid in the first place by the bankrupt, and that, down to a date shortly before the receiving order, he paid the monthly instalments of the mortgage interest and the monthly premiums on the life policy. In fact Mrs M. took no part in the negotiations for the purchase. Stamp, J., held that he must construe section 42 in a commercial sense, having regard to the fact that it was a section framed to prevent properties from being put into the hands of relatives to the disadvantage of creditors. His lordship rejected an argument that Mrs N., by entering into the mortgage, had given consideration, so that the settlement, having been made for valuable consideration, was taken out of section 42 (1); 'consideration' there referred to consideration moving to the debtor which replaced the property removed from the reach of his creditors; nor was Mrs M. a purchaser in good faith within section 42 (1). Accordingly, the trustee in bankruptcy succeeded.

Correspondence

Mathematics in Accountancy

SIR, – Mr R. F. J. Dewhurst in his article 'Mathematics in Accountancy – II' (*The Accountant*, December 11th, 1965) confuses differentials and derivatives (or differential coefficients). What he calls the differential of y with respect to x at some value of x, viz. $\frac{dy}{dx}$ (second column, page 763, *et seq.*) is in fact the *derivative* of the function y at that point. The *differential* dy of the function y is $\frac{dy}{dx} \cdot \Delta\ x$, or $\frac{dy}{dx} \cdot \delta x$ in his notation. A derivative, which is a limiting concept, may be regarded as the ratio of differentials as $\Delta\ x$ tends towards zero. (In view of my last two statements I should add that the differential dx of x is $\Delta\ x$).

Yours faithfully,

Bristol. L. R. AMEY, B.EC., B.A., PH.D.

[Mr R. F. J. Dewhurst writes: I am in entire agreement with Professor Amey's remarks. I could add that strictly the technique of differentiation is for use in the variation of a function of two variables. The differential adds nothing to the derivative notation in the case of a function of one variable. When at least two independent variables are involved, the differential notation is mandatory.

There can be no question of this from a strict mathematical point of view. But this brings up the very important question as to whether the calculus should be dealt with rigorously or should be regarded as a tool.

In the second paragraph of my article I make the point that – until now – the calculus has been regarded 'as a somewhat esoteric subject, to be attempted only by specialists and introduced by a series of difficult and rigorous proofs of its elementary theorems'. Most books on the calculus still take two or three substantial chapters to cope with the subject-matter that I covered in a couple of pages.

It seems to me that all accountants in this modern technological age need to have modern tools available to them. They need to know how to use them and this does mean some understanding of how they are built up.

There is a barrier here, since accountants tend to be scared of the 'higher mathematics', though they need not be to my way of thinking. Rigorous proofs are of great interest to mathematicians. I suggest they should be left – to mathematicians.]

This is My Life

SIR, – I am a great admirer of your contributor 'An Industrious Accountant'. I find that his articles drive home important points in a very readable fashion. I was disappointed in his article of December 4th, 1965. He ably outlined the problem but I think the solution is not made sufficiently clear. Perhaps this would be best expressed as:

'It is possible to delegate authority but not responsibility. It is possible for a manager to make a subordinate responsible to him for some aspect of the work. That manager does not, however, divest himself of any responsibility to higher management for the proper completion of the work delegated.'

Yours faithfully,

Loughton, Essex. P. W. GLASSBOROW.

Students should be 'Rebels'

And be prepared to experiment with new forms

STUDENTS should be 'rebels', according to Mr A. H. Walton, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales and of the Examination Committee of the Institute.

Speaking at the recent annual dinner of the Nottingham Chartered Accountant Students' Society at the Victoria Hotel, Nottingham, Mr Walton advised students not to be conservative articled clerks – not in the political sense – but in a professional way. They should be prepared to experiment with new forms and should try and mix with everybody. Character was built in the stream of life. 'Don't be narrow', he told them.

He also gave students advice on taking their examinations. 'First', he said, 'do answer all the questions. It must be very rare if there is somebody who cannot answer something on every one. Answer the questions which are asked. For example, if you are asked how would you value assets don't tell the examiner how you would verify them.

'And', he added drily, 'if you are going in for examinations, do a little work beforehand'.

Mr Walton stated that contrary to popular belief, 60 per cent plus passed the examination at the first attempt. He said that for many years the correspondence course had been the backbone of the Institute's educational effort, but they were now trying to bring new aids to education and to encourage them.

'Not everyone can learn as much as they wish from reading', he said. 'We are trying to forge better links with the technical colleges and universities. Visual aids, teaching machines, and other things too horrible to mention were some of the aids which the education committee would like to see used.

'We are trying to stimulate increasing interest in education and educational facilities', he said.

Mr Walton also reminded students that 'the object of the exercise was not to pass the examination; the object was to become chartered accountants'.

Urging the students to strive to be different, he said that imitation might be the sincerest form of flattery but at the best it was only imitation. 'I am a great believer in the cult of the individual', he added.

Mr Walton was replying to the toast of 'The Institute of Chartered Accountants in England and Wales', which had been proposed by Mr J. D. Bellerby, a former England hockey international.

The toast to the Students' Society was proposed in a lighthearted way by Mr Harry Wheatcroft, the celebrated Nottinghamshire rose grower, and Mr W. M. Walker, secretary of the Students' Society, responded.

During the evening, the President of the Nottingham Society of Chartered Accountants, Mr E. D. London, F.C.A., presented silver salvers – the Sir Harold Howitt prize awarded annually to the Nottingham students who, having passed their examinations, had best acquitted themselves in articles – to Mr R. V. Hall and Mr J. H. T. Scothorne.

Mr T. Ashton, F.C.A., President of the Society (*left*), with Mr Harry Wheatcroft, the Nottinghamshire rose grower, and Mr J. D. Bellerby, former England hockey international.

Money not the Master

TRIBUTE was paid to the 'wonderfully high standards set by the accountancy profession', at the recent annual dinner of the Bradford and District Chartered Accountant Students' Society. The Rev. Frank Thewlis, Superintendent of the Eastbrook Methodist Mission, Bradford, who was proposing the toast of 'The Institute of Chartered Accountants in England and Wales', coupled with a toast to the Students' Society, added: 'Your standards are second to none in the whole world, and the integrity of your profession is the admiration of all civilized people'.

Money was not an end in itself, he said, but was meant to be the servant, not the master, of the community. Accountants could help people by not only telling them how to keep their books straight, but by giving them a better idea of what money was for.

Mr Thewlis told the company he was furious on finding out from an accountant friend, after ten years, that he could have claimed for using his study as an office, when filling in income tax returns. And then he remembered that as a Methodist minister, he had paid no tax for ten years!

After references to the important place of the Institute, Mr Thewlis said the Students' Society deserved

to be linked with the toast, if only because he had found out two of its rules which must be unique.

First, each must be a member whether he liked to or not. Secondly, 'Your boss has to pay the fees!'

Replying to the toast, Mr R. S. Wainwright, M.A., F.C.A., President of the Leeds, Bradford and District Society of Chartered Accountants, stressed the need for 'live cells' of students being maintained in all offices in the city.

Each of the two bodies linked in the toast was important in its own way. He said that the Students' Society President was one who bridged these two august bodies, as did Mr David Steele, F.C.A., the local member of the Council of the Institute.

Another bridge was the district society, which threw open all its lectures to articled clerks; with tuition facilities at national level and in the districts, said Mr Wainwright.

The toast of 'Our Guests', was proposed by Mr C. G. M. Green, Treasurer of the Students' Society, who commented that the Council of the Institute was taking a very keen interest in the student societies.

He paid tribute to the work of Mr S. Hall, senior lecturer in accountancy at Bradford Technical College, under whose guidance 'a 90 per cent pass had been achieved by the society students'.

Mr K. D. Robinson, M.A., Headmaster of Bradford Grammar School, responded.

The President of the Students' Society, Mr C. Luxton, F.C.A., who presided over the dinner, had special words of praise for the dinner secretary, Mr J. K. Bagnall.

In Parliament

British Companies: Tax

Mr Box asked the Secretary of State for Commonwealth Relations what instructions have been given to British companies operating in Rhodesia regarding the payment of taxes to the illegal Government.

Mr Bottomley: None.

Hansard, Dec. 21st, 1965. Written answers, col. 394.

Rating System: Comprehensive Review

Mr Ridsdale asked the Minister of Housing and Local Government on what date he will announce his proposals for a comprehensive review of the rating system; and from what dates these proposals will take effect.

Mr Crossman: The Rating Bill embodies the first instalment of the Government's proposals. I expect to announce the remainder early next year.

Mr Ridsdale: As it seems so easy for the Minister to make a general criticism of the rating system without giving detailed proposals, may I ask him to assure the House that it is his intention to bring these detailed proposals to the House before the next General Election?

Mr Crossman: We shall bring them before the House. I hope that the Bill will be before the House in the spring. We are now having discussions with the treasurers before finalizing our proposals on the reorganization of the grant system.

Mr Alfred Morris: Is my right hon. friend aware that his sentiments against such regressive taxes as rates have been widely welcomed in the country and by people of all persuasions?

Mr Bessell: Has the Minister given serious consideration to proposals for a system based upon rating and taxation of site values? Further, will he at least consider a survey in an industrial area similar to the one which took place at Whitstable?

Mr Crossman: We are certainly willing to consider the possibility, although I doubt whether another survey would be valuable. The hon. Member should study the proposals for the Land Commission and, perhaps, the Committee stage of the Bill before he makes up his mind whether site value taxation has been replaced by betterment tax as a desirable method.

Hansard, Dec. 21st, 1965. Oral answers, col. 1846.

Schedule D: Case VII

Mr Costain asked the Chancellor of the Exchequer how much tax was collected under the provisions of Case VII of Schedule D for the tax year 1964–65; and how much he expects to collect during the year 1965–66.

Mr MacDermot: About £3 million in 1964–65 and £3½ million in 1965–66.

Hansard, Dec. 21st, 1965. Written answers, col. 409.

Income Tax: Schedule D

Mr Iorwerth Thomas asked the Chancellor of the Exchequer whether rating returns made to the valuation office of the Inland Revenue are made available to inspectors of taxes for the purpose of income tax under Case VIII of Schedule D.

Mr Callaghan: Yes. In order to avoid separate requests for the same information from two branches of the Inland Revenue, the Board of Inland Revenue has arranged for returns of rent etc. furnished to its valuation officers for rating purposes to be made available to inspectors of taxes for the purposes of Case VIII of Schedule D. Particulars delivered to the Inland Revenue under section 28 of the Finance Act, 1931, of instruments transferring an estate or interest in land are also made available to inspectors of taxes.

Hansard, Dec. 22nd, 1965. Written answers, col. 478.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS ANGUS, CAMPBELL & CO, Chartered Accountants, of Ling House, Dominion Street, London EC2, announce that they have taken into partnership from January 1st, 1966, Mr G. N. RAITZ, F.C.A., who has been with them for some years.

MESSRS ERIC S. BROWNE & CO, Chartered Accountants, of 41 North John Street, Liverpool 2, announce that Mr ERIC S. BROWNE, F.C.A., retired on December 31st, 1965. From that date the practice is being carried on by the remaining partners under the same name as hitherto.

MESSRS DUNN, WYLIE & CO, Chartered Accountants, of Chile House, 20–24 Ropemaker Street, London EC2, announce that Mr D. B. D'EATH, F.C.A., resigned from the partnership on December 31st, 1965, to take up a commercial appointment.

MESSRS FULLER JENKS WISE & CO, Chartered Accountants, of 55–61 Moorgate, London EC2, and Messrs GREENHALGH SHARP & CO, Chartered Accountants, of 30 Brown Street, Manchester 2, announce that they have entered into an association. While the two firms will carry on their separate practices in London and Manchester they have formed a new firm with Messrs J. B. RANSOME, C. M. MCGILCHRIST, J. SEAL, F. WHITE, L. J. PRATLEY, B. C. BERKINSHAW-SMITH, K. S. MOORE, G. H. BARNARD and D. J. NEVILLE as partners to practise from both the foregoing addresses under the name of Messrs FULLER JENKS WISE & CO.

MESSRS HAM, JACKSON & BROWN, Chartered Accountants, and Messrs HARRISON SMITH & HAUGHTON, Chartered Accountants, announce that they have amalgamated their practices. The new firm will practise under the name of HAM, JACKSON & BROWN (incorporating HARRISON SMITH & HAUGHTON) from offices in Bristol and Bath. Mr F. HAUGHTON, F.C.A., has retired as a partner in HARRISON SMITH & HAUGHTON but retains his connection with the new firm as a consultant. Mr S. F. MILSOM, F.C.A., and Mr J. H. SIBLEY, A.C.A., both of whom have been associated with HAM, JACKSON & BROWN for many years, have been admitted into partnership.

MESSRS LAVERICK, WALTON & CO, Chartered Accountants, of Midland Bank Chambers, Sunderland, announce the retirement with effect from December 31st, 1965, of their senior partner, Mr NORMAN HUTCHINSON WALTON, F.C.A. The practice will thereafter be carried on by the remaining partners under the same style, and Mr WALTON will continue to be available to the firm's clients in a consultative capacity.

MESSRS LINDSAY, JAMIESON & HALDANE, Chartered Accountants, of 110 Cannon Street, London EC4, announce that they have taken into partnership Mr RAYMOND J. BRADSHAW, A.C.A.

MESSRS LUXON, WEST & CO, Chartered Accountants, of Plymouth and Messrs NEVILL, HOVEY, SMITH & CO, Chartered Accountants, of Plymouth and Exeter, announce the amalgamation of their practices. The amalgamation will be effective from January 1st, 1966, when the combined practice will be carried on under the name of NEVILL, HOVEY, LUXON, WEST & CO. Pending some reorganization of premises the combined practice will be carried on at the present addresses of the two firms.

MESSRS MILLER, STRONG & CO, Chartered Accountants, of 37–39 High Holborn, London WC1, announce that Mr ALAN J. GRAVELIUS, A.C.A., a senior member of the staff, has been admitted as a partner with effect from January 1st, 1966.

MESSRS PRICE WATERHOUSE & CO, London, announce with deep regret the death on December 16th, 1965, of their partner, Mr T. R. T. BUCKNILL, F.C.A., who was articled in the firm and was admitted to partnership in 1953.

MESSRS PRICE WATERHOUSE & CO, announce the admission of Mr K. P. JONES, F.C.A., to partnership in the Trinidad and Tobago firm, as from January 1st, 1966.

MESSRS PRICE WATERHOUSE & CO and Messrs MELLORS, BASDEN & MELLORS announce that they have formed a joint firm under the name of PRICE WATERHOUSE & CO, at 1 King John's Chambers, Bridlesmith Gate, Nottingham. The partners in the joint firm comprise certain of the United Kingdom partners of PRICE WATERHOUSE & CO, and of the partners of MELLORS, BASDEN & MELLORS. The practice of MELLORS, BASDEN & MELLORS will continue to be carried on in that name from the above address.

MESSRS SPICER & PEGLER, Chartered Accountants, and Messrs RUSSELL, DURIE KERR, WATSON & CO, Chartered Accountants, announce the formation with effect from January 1st, 1966, of a joint firm with the name SPICER & PEGLER, RUSSELL & CO. The addresses of the joint firm will be both St Mary Axe House, 56–60 St Mary Axe, London EC3 (the offices of Messrs SPICER & PEGLER), and Lombard House, Great Charles Street, Birmingham 3 (the offices of Messrs RUSSELL, DURIE KERR, WATSON & CO). Both founder firms will continue to practise under their present styles and from their present offices.

Appointments

Mr D. F. Bishop, A.C.W.A., has been appointed chief accountant of The Marconi Company, succeeding Mr K. Brookes, F.C.W.A., who has relinquished his appointment to become chief accountant, English Electric, responsible for the electronics group, the computer and automation group and the English Electric Vale Company.

Mr Denis Edis, F.C.W.A., M.B.I.M., has been appointed comptroller, Transmission Systems Group, Standard Telephones & Cables Ltd.

Mr W. C. Hardaker, F.A.C.C.A., secretary, The Metal Box Co Overseas Ltd, has been appointed a director of the company.

Mr B. K. Mead, F.C.A., has been appointed deputy managing director of Coventry Radiator & Presswork Co Ltd, and has been succeeded as financial director and secretary by Mr M. A. Sykes, F.C.A.

EUROPEAN ACCOUNTING DEFINITIONS

A commission on terminology with the objective of preparing a report on the accountancy terms used in published reports and accounts in six European countries was set up at the 1963 Congress of the European Federation of Financial Analysts Societies.

The Commission's final report has now been published and contains a country by country series of definitions of various terms employed in company reports and accounts with an explanation in English of their meanings; for anybody dealing with European companies' accounts this will prove a most useful reference book. The countries covered are Britain, France, Germany, Belgium, Switzerland and the Netherlands.

Copies of the booklet, which are also being issued in French and German, are available from the Society of Investment Analysts, 21 Godliman Street, London EC4.

GUIDE TO THE METRIC SYSTEM

Britain is changing to the metric system at a time when a newly rationalized set of metric units (Système International d'Unités (SI)) is coming into international use. As part of the British Standards Institution's educational and publicity programme for promoting the metric change, an explanatory booklet entitled *The Use of SI Units* has been prepared on the recommendation of the B.S.I. Advisory Committee on Metric Conversion and Standards. The Committee felt that there was a widespread need for a 'popular' explanation of their booklet *The International System (SI) Units* published in 1964.

The new booklet outlines the historical background to the international recognition of SI metric units, explains what they are, comments on the use of the 'newton' as the unit of force, and indicates also how the units may best be introduced in industry. The more important British Standards which provide further information on the use of SI units are listed in an appendix.

Copies of the booklet are obtainable from the British Standards Institution, 2 Park Street, London W1, first copy free, additional copies price 1*s* each, post free.

U.S. ECONOMIC EXPANSION

United States domestic expansion and, more recently, the balance of payments have both been responding strongly to policy measures according to the latest survey by the Organization for Economic Co-operation and Development on economic conditions in the United States for 1965–66 (H.M.S.O., price 5*s*).

Part I of the report reviews current trends in output and demand, costs and prices and the balance of payments. Part II considers how budgetary and monetary policies have been used to influence the domestic expansion and the balance of payments, while Part III discusses major policy issues and the further economic measures that may be needed to deal with them.

NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS

The next monthly luncheon meeting of the Northern Society of Chartered Accountants will be held on Monday, January 10th, at The County Hotel, Neville Street, Newcastle upon Tyne, at 1 p.m., when the speaker will be Mr W. Frank Harris, B.COM., F.S.A.A., principal city officer to the Town Clerk.

On February 2nd there will be a joint meeting with The Law Society. The meeting, which will take place at the Highfield Hotel, Middlesbrough, at 7 for 7.30 p.m., will be addressed by Mr H. E. Rowe, who will speak on 'The capital gains tax'.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 1 p.m on Monday, January 3rd, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The scripture for reading and thought will be Jeremiah, chapter 29, verses 11 to 13.

The annual dinner of the Fellowship will be held at 6.30 for 7 p.m. on Friday, January 21st, at the Bonnington Hotel, Southampton Row, London WC1. The principal guest will be Professor Norman Anderson, O.B.E., M.A., LL.D., Professor of Oriental Laws in the University of London. Tickets (30*s*) may be obtained from the hon. treasurer, Mr W. W. Mortimer, F.C.A., 38 Chancery Lane, London WC2.

THE LONDON AND DISTRICT SOCIETY OF CERTIFIED ACCOUNTANTS

The London and District Society of Certified Accountants is holding a one-day conference on Saturday, January 15th, at the Connaught Rooms, Great Queen Street, London WC2, for practising members of The Association of Certified and Corporate Accountants in the London area. The subjects for discussion will be:

'The certified accountant in practice, his problems and opportunities', by Mr C. A. Perry, F.A.C.C.A.

'The certified accountant and the Inland Revenue', by Mr J. E. Lawrence, H.M. District Inspector, Piccadilly District.

'Specialization within the profession', by Mr H. J. F. Harvey, F.A.C.C.A., A.M.B.I.M.

All applications for tickets should be made to the honorary secretary, Mr D. V. Bull, A.A.C.C.A., A.C.C.S., 3 Marshgate Farm, Harlow, Essex. Cost will be £2 15*s* – including coffee and lunch.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Speakers from industry and from the trades unions will discuss the question 'Are unions out-dated in a technical age?' at a meeting to be held at The Green Man, Bucklersbury, London EC4, next Thursday, January 6th, at 5.45 p.m.

THE ACCOUNTANT

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ON OTHER PAGES

Executive Emoluments

THERE are four standards of measurement which may be applied to the contents of a pay packet – the intrinsic ability of the person whose name is on it weighed in conjunction with the worth (to his employers) of the job he is occupying; the amount he earns in relation to that earned by his colleagues; the amounts he and his colleagues earn in relation to those earned by people of similar levels in concerns in the same trade or industry; and, finally, what workers in one trade or industry earn compared with the earnings of people of similar standing in other trades and industries.

It is the problem of equating the first of these with the three others which leads to so many industrial disputes, at least as far as the common run of workers is concerned. The higher one rises, however, the more personal becomes the bargaining and, within limits, the greater the ability of the individual the more is he in command of his financial destiny. Betwixt and between, a little below the top but high above the masses, are a number of senior business executives who, it is not too much to say, constitute the backbone of the country's commercial structure. It is they who have first to produce the information on which major decisions may be made and, secondly, to implement these decisions. It is imperative then that, being generally in positions of greater responsibility than authority, they should be both able and well paid.

A survey of executive salaries in 1965, just published by Associated Industrial Consultants Ltd, indicates how they are faring. Of the twelve types of job selected for comparison, the highest median salary (out of a sample of 351 companies) was the sales manager's £3,300, an increase of 5·6 per cent over 1964. The greatest percentage increase over a year ago was the export sales manager's 20·8 to give him a 1965 median salary of £2,840. Three other kinds of executives – including the company secretary at £2,950 (4·2 per cent increase) – were higher than the chief accountant at £2,700 (5·9 per cent increase) and, second last of the twelve, was the cost accountant with £1,800. In this instance, however, the percentage increase was 9·1 which, it is thought, reflects the growing shortage of cost accountants. One important conclusion reached by the compilers of a revealing collection of statistics is that, on average, salaries have gone up by nearly 40 per cent since 1961. This means that the senior executive is more than holding his own, not only against higher taxation and declining purchasing power, but, also, the trend of earnings of the rest of the community.

CAPITAL GAINS TAX

Trust Property – I

THE straightforward idea of acquisitions and disposals contemplated by a capital gains tax does not conveniently accommodate the multifarious and complex situations where the legal owner of an asset is A., but it belongs either to B. or to a fluctuating and often still unascertained group of beneficiaries. Consequently Part III of the Finance Act, 1965, contains special provisions designed to release certain transactions from liability where it would obviously be absurd to impose it, and other provisions designed to impose tax where in the ordinary sense there is in fact no acquisition or disposal.

To take the simplest case first, if a beneficial owner transfers an asset to someone else to hold as his bare nominee, then although there is a disposal in law, it is clearly not one which should attract liability. The same applies with even greater force where the beneficial owner directs the bare nominee to transfer the asset to another bare nominee. There are more complex transactions with nominee holdings where the same argument would apply. Section 22 (5) of the Finance Act, 1965, attempts to exempt them all, but at the same time to impose tax where there is a real disposal.

The subsection applies in relation to 'assets' [*sic*] held by a person (whom we will call 'T.'):

(*a*) as nominee for another person; or

(*b*) as trustee for another person 'absolutely entitled' as against T.; or

(*c*) for another person who would be 'absolutely entitled' as against T. but for being an infant or under some other disability; or

(*d*) for two or more persons jointly entitled as in (*a*), (*b*) or (*c*).

Where any *one* of the above four conditions is satisfied then Part III of the Act is to apply as if

(i) the property [*sic*] were vested in the persons described in (*a*) to (*d*) as appropriate; and

(ii) the acts of T. in relation to the assets [*sic*] were the acts of those persons.

It follows that if T. makes a disposal, then the beneficial owners are deemed to make it, and they are chargeable to any resulting capital gains tax if the disposal is by way of sale or gift. As a corollary, the subsection introduces some important words in parenthesis:

> '(acquisitions from or disposals to (T.) by that person or persons being disregarded accordingly)'.

Presumably the word 'accordingly' is put in to prevent anyone from arguing that when the owner sells or gives the asset in question to T., he is impliedly exempted from tax by the main provision of section 22 (5). Whether it achieves this result is a matter for argument.

Suppose now that T. is to be replaced, and therefore transfers the asset to T. (2). The disposal by T. and the acquisition by T.(2) become, under section 22 (5) a disposal by the beneficiary to himself, or in other words a nullity.

We can now proceed to the more complex problems of 'settled property' which the Act defines as

> 'any property held in trust other than property to which section 22 (5) of this Act applies' (section 45 (1)).

This definition is subject to special provision for unit trusts in section 45 (8). These, broadly speaking, equate such a trust with a company, and inferentially indicates that a unit trust does not fall within the definition of 'company' in section 45 (1), which includes any 'unincorporated association'.

The definition of 'settled property' produces a certain vagueness. Suppose that property is indubitably settled but the trustees (having power to do so) decide to vest it in a nominee. Against the nominee they are 'absolutely entitled' in any ordinary sense. Are they also 'absolutely entitled' within the meaning of section 22 (5)? If they were, the property would have ceased to be 'settled property' within section 45 (1).

For the substantive provisions about settled property we must turn to section 25. In relation to settled property the trustees of 'the settlement' (undefined) are to be treated, for capital gains tax purposes, as being 'a single and continuing body of persons (distinct from the persons who may from time to time be the trustees)' (section 25 (1)). Presumably it is not intended that such 'body of persons' shall be treated as an 'unincorporated association' and therefore a 'company'. It follows that when there is a change of trustee, and the old trustees transfer the settled property to the new trustees, that is not a disposal nor an acquisition for capital gains tax purposes.

Having provided for this fairly obvious situation, section 25 (1) then plunges without pause into quite a different topic, namely the question of where this 'body of persons' is resident or ordinarily resident. The significance of this lies in section 20 (1) which makes a

person's liability for tax on gains accruing in a year of assessment dependent on his being either

(*a*) resident in the United Kingdom during any *part* of the year of assessment; or

(*b*) ordinarily resident in the United Kingdom *during* the year of assessment (i.e. without being resident at all).

It is clear that in this context section 20 (1) uses the word 'during' in the sense of 'throughout'.

The common body of trustees will be treated as *both* resident and ordinarily resident in the United Kingdom *unless*:

(i) the general administration of the 'trusts' (undefined) is ordinarily carried on outside the United Kingdom; *and*

(ii) at least a majority of the trustees for the time being are *either*:

(*a*) not resident in the United Kingdom; *or*

(*b*) are not ordinarily resident in the United Kingdom.

This part of section 25 (1) raises far more questions than it answers. Its provisions are not related to any particular assessment year but only to the settled property; still less are they related to the point of time at which a capital gain accrues to the trustees. Do the words 'for the time being' mean 'the trustees for the time being' or do they relate to the words 'resident' and 'ordinarily resident'? Suppose that, of three trustees, one is resident but not ordinarily resident, another is ordinarily resident but not resident, and the third is both resident and ordinarily resident, in the United Kingdom. It can be said with truth that a majority of the three are 'not resident or not ordinarily resident' so that (provided that the general administration is ordinarily abroad) the body of trustees is not to be *treated* 'as being resident and ordinarily resident' under section 25 (1). But is this body nevertheless caught on general principles? Presumably it escapes liability.

The general conditions laid down in the second part of section 25 (1) of the Finance Act, 1965, which have to be satisfied if a body of trustees are to escape being treated under the subsection as resident and ordinarily resident are two in number and are cumulative. Without more, they would make all settled property chargeable, whenever the trustee was resident or ordinarily resident here, even though the administration was wholly abroad. Now some people here make a business of being trustees and they accept all kinds of foreign trusts, which might be driven away if such acceptance involved capital gains tax on the settled property. Accordingly the proviso to section 25 (1) provides an escape where certain conditions are satisfied. These are as follows:

(1) the trustee carries on a business which consists of or includes the management of trusts (undefined);

(2) he acts as trustee in the course of that business;

(3) the *whole* of the settled property

(i) consists of, or

(ii) derives from property 'provided by' a person 'not at the time',

(*a*) domiciled;

(*b*) resident; or

(*c*) ordinarily resident;

in the United Kingdom.

In those circumstances the professional trustee is to be treated as 'not resident [*sic*] in the United Kingdom'. This proviso also raises uncertainties. It does nothing about ordinary residence. If the trustee is in fact ordinarily resident in the United Kingdom, the settled property is caught even though he is deemed not to be resident. Presumably some concession will be made, for the proviso can hardly have been intended to operate only where the professional trustee is not ordinarily resident in the United Kingdom.

Another matter which the proviso leaves uncertain is the precise meaning of 'not at the time'. Presumably this test is applied to the person providing the property at the time he provided it. Thus if a person who was not resident or domiciled in the United Kingdom made a huge settlement and then took up residence here, then the settlement could obtain the benefit of the proviso.

Seeing that the whole of the settled property must be so provided if the trust is to have the advantage of the proviso, trusts which include both kinds of property might with advantage be split up into separate trusts, so that one of them would qualify. However, it would not be enough merely to have separate trustees owning different property on identical trusts. Such a case is covered by section 25 (11) which directs that the two bodies of trustees be treated as one. Therefore it would be necessary to vary the trusts slightly.

In the case of a settlement arising under a testamentary disposition or on an intestacy or partial intestacy, the proviso applies if, at the time of his death, the deceased was not domiciled, resident or ordinarily resident in the United Kingdom.

In view of the uncertainties of the proviso, it is perhaps better not to rely on it but instead to choose overseas trustees.

(*To be continued.*)

Current Affairs

New Year Honours

IN the New Year Honours List published last Saturday, two members of the profession, Mr S. A. S. Forster, C.B.E., D.C.L., F.C.A., chairman, Industrial Estates Management Corporation for England, and Mr C. R. Sopwith, F.C.A., solicitor, Board of Inland Revenue, become Knights Bachelor.

Mr C. R. Sopwith
(Knight)

In the Diplomatic List, the C.B.E. has been awarded to Mr W. Lackie, C.A., C.P.A., of Kobe, Japan, and to Mr D. L. V. Rowe, O.B.E., M.C., F.C.A., managing director, Bird & Co (Private) Ltd, of Calcutta, for services to the British community in India.

The M.B.E. has been awarded to Mr R. G. Read, F.C.A., assistant accountant, Independent Television Authority, and to Mr H. B. Richardson, F.A.C.C.A., secretary and finance officer, Land Settlement Association.

Land Commission Bill

THE recently published Land Commission Bill, consisting of eighty-eight clauses and eight schedules, follows the outline contained in the White Paper (Cmnd. 2771). The Bill will enable the proposed Commission to buy land which is suitable for material development both compulsorily and by agreement; but the land must be subject to a decision of a planning authority before a compulsory acquisition can be made.

There is to be a 'betterment levy', which is another form of capital gains tax at a higher rate. This levy will be payable, not when planning permission is received, but when development takes place or development value is realized on a disposal of the land. A new form of land tenure called 'Crownhold' will come into being when the Commission, having acquired land, disposes of it for housing subject to restrictions which will reserve to the Commission future development value. The Bill will be considered at greater length in next week's issue.

Official Guidance on Expenses

THE Revenue have reissued their booklet *Notes on Expenses, Payments and Benefits for Directors and Certain Employees*, which first appeared in August 1961. In commenting on the booklet at that time, we forecast the introduction of legislation to cut down the allowance of entertainment expenses. This prediction was fulfilled by section 15 of the Finance Act, 1965, and there has been much talk but little official guidance as to the practical application of the new rules. In this respect the new edition of the *Notes* offers only a meagre degree of assistance since, with one exception, the fourteen paragraphs do no more than reproduce the text of the former publication. However, it should be borne in mind that these are to be read in conjunction with the *Employer's Guide to 'Pay as You Earn'*.

The only novelty is to be found in paragraph 12 which explains that where a director or employee receives an allowance which is specifically earmarked for entertaining, the payment is disallowed in calculating the employer's tax liability. In this event the new rules do not affect the normal conditions for a claim under Paragraph 7 of the Ninth Schedule to the Income Tax Act, 1952. A double disallowance is thus possible where the occasion concerned comes within the description of 'reciprocal entertaining between business acquaintances', the Revenue's pet hate.

As regards overseas customers, we are told that the entertainment of a number of United Kingdom customers would not be regarded as allowable simply because there was one overseas customer present at the same time, for this would not rank as reasonable entertainment of the overseas customer. Attention is also drawn to the fact that retail customers and persons acting in a private capacity do not qualify as 'overseas customers' in this context.

Copies of the revised pamphlet are obtainable from the offices of H.M. Inspectors of Taxes.

Disappointing Balance of Payments

THE announcement of a £236 million deficit in the United Kingdom third quarter's balance of payments figure, after the highly encouraging second quarter when the deficit was a mere £19 million, was a considerable disappointment. Admittedly, the third quarter figures are invariably affected by adverse seasonal factors and these were reinforced by the timing of the factors which thereby helped produce the

better than expected second quarter figures. Nor was the situation improved by the substantial payments made by the oil companies in respect of tax and development during the past quarter.

Taking the first nine months of 1965 as a whole, the deficit totals just over £350 million and, if the Chancellor's hopes of halving the massive deficit of £800 million incurred in 1964 are to be realized (and of this sum £561 million was incurred in the first nine months), then the final quarter of 1965 must produce rather better than expected figures. Despite the higher level of visible exports which have been running at about 6 per cent above the previous year in value terms, the net invisible earnings for the first nine months of 1965 are estimated at only £82 million compared with £101 million in the corresponding period of 1964. The Government's own expenditure overseas shows no signs of contraction.

Total net inflow of capital during the same period was £182 million, compared with the corresponding 1964 figure of £250 million. The outflow of funds would have been heavier but for the continuing reduction in private holdings of foreign assets by United Kingdom residents.

The outcome of the third quarter's trading may serve as a corrective to the more optimistic appraisal of Britain's overseas position which seems to have been made during recent months in the Press. As was pointed out in last week's leading article, the dominant need to sustain sterling and the British economy is a further substantial expansion in exports.

Distributors' Stocks and Capital Outlays

THE importance of using certain indicators of business activity as a basis for short-term economic forecasting is fully recognized by the Government. To this end, apart from using the data collected in the periodic industrial inquiries of the Confederation of British Industries, and the trade and export prospects of members of the Association of British Chambers of Commerce, among other bodies, the Board of Trade is an avid collector of such statistics.

The *Board of Trade Journal* for December 31st, contains a short article setting out the findings of the recent annual inquiries into stock changes and capital expenditure in the distributive and service trades. Some of these data are provided voluntarily by firms in the industries concerned, in some cases monthly and sometimes quarterly. Once a year, however, a sample survey is taken to collect information from a broader and more representative group of companies in the distributive and service industries. These data also serve as a check on the monthly and quarterly data collected during the year.

The article sets out in tabular form a breakdown of capital expenditure between new building work, vehicles and other capital outlays for the five years 1960–64 inclusive for a number of industries. These include road passenger and sea transport, road haulage contracting, major types of wholesale and retail distribution, as well as the financial institutions such as banks and insurance companies. In all groups except sea transport, the capital outlays during 1960–64 have risen steadily; in the case of retail distribution by over 50 per cent from £160 million to £247 million.

The corresponding figures for aggregate stocks and the annual changes are given only for those groups which carry stocks, i.e. retail and wholesale distribution, commodity dealers both domestic and industrial. Here, too, the annual figures show a continuous increase over the quinquennium; stocks at end 1964 of wholesale distributors totalling over £723 million and those for retail distributors being estimated at £1,250 million. A noticeable feature of these series is the larger than average increase in stocks in all the industrial groups, for which figures are given, that took place in 1964. It would be interesting to know in the light of recent developments and the trend of imports what changes have taken place in the past year.

Fewer Unions, More Members

BRITAIN now has more than ten million trade unionists. Ministry of Labour figures show that 138,000 new enrolments were added in 1964, bringing total membership up to 10,065,000 – the highest figure ever recorded.

The rate of increase in membership also showed a sharp rise in 1964. In the previous nine years the average increase had been 40,000 a year; in 1964 this figure was more than trebled.

The year was notable in another way: new enrolments were higher among men than among women, reversing the trend of recent years. In 1963, for example, there were three extra women members for every extra man. But last year there were 73,000 new male members to the 65,000 new women members.

Although there were more trade unionists they were in fewer unions. At the end of 1963 there were 602; a year later there were 591, the drop of eleven being just under the annual average for the last decade. Some unions, however, are very small – 307 had so few members that they formed less than 1 per cent of total membership. On the other hand eighteen of the largest unions accounted for more than two-thirds of the members of the trade union movement.

About 90 per cent of trade union members are in registered unions. On average they paid £3 14*s* 7*d* during 1964 in contributions (1*s* 5½*d* a week) and the unions spent £3 12*s* 9*d* a member on benefits and working expenses. In 1963 the corresponding figures were £3 11*s* 4*d* and £3 8*s* 10*d*.

The funds of registered unions increased by £5,145,000 to £111,324,000 during 1964. Contributions brought in £31,969,000, an increase of £1½ mil-

lion, and other income (mainly interest on investments and bank deposits) yielded £4,884,000.

Working expenses and union expenditure on all benefits except unemployment benefit showed an increase during the year. Sickness and accident benefit was up 2·5 per cent to £2,165,000, death benefit rose by 1·9 per cent to £1,030,000 and dispute benefit – mainly strike pay – was up 5·9 per cent to £489,000. Unemployment pay, on the other hand, fell by 54·9 per cent to £209,000, compared with increases of 50·3 per cent in the previous year and 73·3 per cent in 1962.

Pressure from Wages

THE struggle to contain the upward pressure from wages on costs continues with disappointing results. Higher costs in industry have in many cases during 1965 been absorbed in lower profit margins, a point which will become increasingly important in 1966 when decisions on investment (and its prospective profitability) have to be taken. To date, the decision of industry to take an optimistic long-term view on investment in new capacity has played an important part in keeping the economy buoyant in 1965.

The other buoyant factor in the economy, despite the April budget, has been the sustained purchasing power of the public, a high proportion of whom have enjoyed the wage and salary increases which now cause the Government so much concern. The Prime Minister's new year message to the Labout Party warns that many workers will have to exercise restraint on wage demands in 1966.

Price increases on a wide range of products notably in food are imminent or have just taken place. In addition early warnings of price increases are being prepared by some industries with reasons for them and some of these are likely to finish up as actual increases in due course. Instances of moves in the opposite direction are few. However, the London Electricity Board is now reviewing the criticism of the National Board on Prices and Incomes that R.P.M. on appliances lowers its competitive power. One rumour of a swallow in sight, however, is a slender basis for the hope of an early spring.

Fairfield Plan

UNDER the plan for the running of the Fairfield shipbuilding yard, which is at present in the hands of a receiver, the Government will hold half the equity of a new company called Fairfield (Glasgow) and the rest is to be shared among private enterprise and the unions.

In the case of private enterprise, only the names of Lord Thomson of Fleet and Sir Isaac Wolfson have been mentioned but there are others. Two of the large trade unions have said that they will take part. These are known to be the Amalgamated Engineering Union and the Municipal and General Workers' Union. No mention has been made about the amount of capital involved but there have been reports that it is in the region of £1½ million. The new management will be under the chairmanship of Mr Iain Stewart, the Clydeside industrialist.

The arrangement has had a fairly chilly reception from the rest of the shipbuilding industry who fear that the yard will now be in a privileged position. They also would have preferred to see the report of the Geddes Committee on the shipbuilding industry before such an arrangement was made.

Fairfield may now well be an interesting but controversial case. On the one hand, the unions are committed financially to making a success of a scheme in an industry which has been chronically troubled by demarcation disputes. A new management comes in with known new ideas in a conservative industry. On the other hand, no one has made out the objective case for trying all this out on this particular yard.

Cost of Gas

THE National Board for Prices and Incomes has submitted its views on recent gas price increases and on various long-term questions of costs and depreciation. Its endorsement of certain prices made by area gas boards over recent months (it came down in favour of trimming only one increase – that proposed by the South Western Gas Board) will not be particularly welcome to the Government.

Its views on costs and depreciation may be more significant in the long run, however. The Board think that the gas industry (and electricity too) should be required to obtain a higher rate of return on new investment than that for the whole of their capital employed. The gas industry should be expected to reduce its costs. On depreciation it says that inflation may make replacement cost higher than historic cost, while a high rate of technical change may shorten the economic life of plant. In both cases high depreciation and obsolescence charges may raise prices. On the other hand, innovation may bring lower capital costs (and this may well happen in gas) which will lower depreciation charges. The Board therefore emphasizes the emerging cost pattern, not the historic one, but add the qualification that if the long-term cost trend is downward, the consequent pressure to lower prices should be accepted gradually to avoid abnormal demand developing. At the same time, an easing of financial obligations on the industry should be slow since it might encourage slack management.

The Board makes other recommendations about the future of the industry which makes the document as much a comment on the long-term policy for the gas industry as the answer to a remit on prices.

Local Authority Debt Analysed

APART from the customary and detailed statistics relating to the banking system, money and capital markets, the latest issue of *Financial Statistics* (H.M.S.O., 8*s* 6*d*) contains some interesting analyses of local authority loan debt based on a complete survey in 1965.

Of the £9,916 million outstanding at March 31st, 1965, almost £3,000 million had a life of one year or less. Of this sum, £105 million was bank overdrafts and £1,036 million represented loans callable within seven days. A further £1,527 million of debt had between one and five years to run. Debt with a period to maturity in excess of fifteen years totalled £3,470 million.

Temporary debt, excluding revenue balances temporarily used for capital purposes, rose by £316 million to £1,825 million in the year and this accounted for almost one-fifth of the total debt. Over the preceding twelve months total debt rose by £946 million, i.e. 10 per cent, of which almost one-quarter, £233 million came from the Public Works Loan Board. Outstanding loans from this source totalled £3,302 million at end March 1965, of which £2,637 million was to English and £202 million to Welsh local authorities. As would be expected, just over half this sum was made available to the minor authorities.

This is My Life

by An Industrious Accountant

THE office door opened simultaneously with the brisk knock and Prinny, the personnel director, came in with his quick stride. 'Sorry to butt in like this, old chap,' he said genially, 'but I wanted that draft application form back.'

He wasn't a bit sorry, needless to say. He's adopted this pose of moving round pantherishly in the last few weeks rather than summoning staff to come to his office. Keeping in touch, he calls it; though, I think he half expects to find something shocking going on when he opens a door unexpectedly – gambling, or sleeping in the midday sun, or behaviour like the sailor in *The Mikado*:

'With his Nancy on his knees, yo ho,
And his arm around her waist.'

If he continues with this sort of snooping I'll have to get the electrician to wire up a buzzer connected to the floor outside, just in case . . . after all, one does get sleepy sometimes.

Anyhow, he had a surprise coming to him. 'That form', I said with some severity, 'won't do. It just won't do at all.'

Forms of application for jobs have developed with the years. In my early days we just wrote straightforward letters (how often do we still get three pages of closely-scrawled data compressed into near-illegibility?), and I can remember the junior partner in the firm where I qualified, a rather pretentious character, advising us newly-qualified men on the subject. 'Thick vellum, remember', he admonished us with wagging finger, 'and send three copies to help in the circulation among the selection committee.'

Later we worked out a system comprising a typed page of personal details, age, school, exams, etc., accompanying a short handwritten covering letter with a punch-line designed to ensure at least an immediate interview. Four of us sat down and produced half a dozen such lines of outstanding brilliance – one whimsical, two tersely dramatic, and three redolent of devotion beyond the call of duty – and used them for years. Looking back, though, I can't recall any subsequent offers of jobs.

Nowadays we have a standardized form which is sent automatically to every applicant. It includes questions on all possible points of interest, stressing 'type of experience in full detail'. So many young hopefuls tend to write: 'Having served with a leading accountancy firm, I spent three years in a textile factory', which in itself is an uninformative and nebulous sentence. Exactly what they did – payroll, costing, or figures to trial balance stage – is what we want to know. What they propose to do to improve themselves in the future is even more important.

So I drafted a suggestion to Prinny that we should add a specific section on candidates' current examination courses, as an indication that we valued employees who were improving themselves by study for qualification. He came back with an alternative draft. Something more human, he said; something designed to crystallize a chap's philosophy of life. It read: 'Were you ever dismissed, given notice, or requested to resign? If the answer is in the affirmative, what benefit have you derived from the experience?'

He's been reading too many psychological treatises, of course. There are at least two big concerns, to my personal knowledge, who use this sort of approach, but I find it objectionable. We should take a man for what he is and will be; some stories are better left untold, not preserved in black and white to be seen years afterwards perhaps by the wrong eyes. To check with the list of previous employers on an applicant's record seems better than asking such personal questions.

Saving Materials Costs

by E. J. BROSTER

MATERIALS in British manufacturing industries comprise by far the largest item of cost. According to the U.K. Census of Production for 1958, the total expenditure in 1958 on purchases of materials and fuel amounted to nearly £13,000 million compared with a total wages and salaries bill of about £4,500 million. As the Census was taken on an establishment basis, the materials figure of £13,000 million includes transfers from one establishment to another belonging to the same firm. An idea of the measure of the duplication was given for the year 1948 in the Census Report for 1951 and from this we can deduce that the duplication amounts to about 13½ per cent of the total. Assuming the proportion of duplication remains fairly constant with the passage of time – it varies appreciably from industry to industry – we have a figure of expenditure on purchases of materials and fuel in 1958 of something like £11,200 million, which is equal to almost exactly two and a half times the wages and salaries bill.

However, expenditure on purchases is not by far the total cost of materials. To it must be added any costs of transport not included in the purchase price, storage and handling costs including the wages of storekeepers, and stock control and office overheads, so that the total may be of the order of £12,500 million – £13,500 million, excluding any allocated expenses of top management, accounting and the like.

Whatever the true figure may be within any precise definition that can reasonably be used, it clearly gives scope for appreciable annual savings. The object of this article is to discuss some of the ways of effecting savings in materials costs under a number of main headings.

Purchasing

Seeking the lowest price, quality for quality, is probably the most obvious source of saving, and it is unlikely that many manufacturers overlook it.

However, some manufacturers tend to become regular customers of one supplier of each category of materials required. There may sometimes be ai advantage in this; but generally, suppliers are likel to exploit this kind of situation to their own profit. Th prices charged by all main suppliers and a selection o small ones should be examined before new orders ar placed. Any suspicion of a suppliers' price ring shoul be reported under the appropriate statute with a viev to breaking it[1].

Large manufacturing firms may find it well worth while to employ at least one expert in the market fo materials supplies. Market research methods are a applicable to the purchasing side as to the selling sid of a business.

Alternatives

In these days of technological progress in the development of synthetic materials, few manufacturers ca afford to overlook the possibility of using alternative to the traditional materials. Sometimes alternativ natural materials become available at competitiv prices, an instance being secondary aluminium after th Second World War. But synthetic materials provid greater scope for savings: supplies are less likely to dr up and render special equipment obsolete; thei quality tends to be more stable, and their propertie are probably better understood. Manufacturers o wooden products, for instance, should now be lookin at the possibility of using one of the plastics materials possibly reinforced by glass fibre or some simila product, in place of wood.

Synthetic materials have already displaced some o the natural materials wholly or in part, and thei possibilities are unlimited. They may ultimately eve displace steel, iron and the non-ferrous metals in al their numerous applications.

Quality testing

Quality control is a term which was originally applie to the control of quality of finished goods, but is nov sometimes employed in reference to the quality testin of purchased materials. The technical and statistica processes are similar and one could, I suppose, speal of controlling the quality of materials without stretching logic too far.

Materials undergo some form of inspection in mos manufacturing establishments. Too often, however, th inspection is limited to a check of quantity against th supplier's invoice or the order. The need for a qualit test as well would probably be more obvious if losse incurred in the workshop or by replacement of th finished article resulting from the failure of a materia were accounted for as a cost of materials and not a cos of production.

Quality testing is done by sampling, as in qualit control. In its simplest form, a sample is drawn fron the delivery or batch and each item in the sample i

[1] Monopolies and Restrictive Practices Commission Act, 1953, o the Restrictive Trade Practices Act, 1956.

tested for the required properties, such as tensile strength, accuracy of dimensions, durability under stress, resistance to friction, purity, and so forth. The proportion of the sample failing the test or one or more of the tests applied is calculated and ascribed to the whole batch as a probability within ascertainable limits.

Testing for quality and determining probabilities for whole batches from random samples can be expensive. The former may require the services of at least one engineer or technologist and a quantity of expensive equipment, and the latter the services of a mathematical statistician trained in quality control. Both technical personnel and equipment can vary from a clerk and a water-tight metal tray for testing the germination qualities of malting barley in a brewery or of seed in general, to a scientist and an elaborately equipped laboratory for testing metals in a precision engineering factory.

Sequential testing

Testing materials to destruction can also be expensive in materials, and it is here that the trained mathematical statistician has his greatest value. By applying a more sophisticated method, such as sequential testing, he can save a great deal of materials waste. In sequential testing, the sample is drawn at random one item at a time, tested and the result plotted on a specially prepared graph which has two divergent lines, the upper one beginning on the vertical axis and the lower one on the horizontal axis.

The upper line represents the pass limit and the lower one the failure limit, both for a given probability. Passes are plotted against the vertical axis and failures against the horizontal axis. So long as the plotted points remain within the limits of the two lines, at least one more item has to be drawn from the batch, tested, and the result plotted. Once the plot goes outside the lines above or below, the test is complete: if above the upper line, the whole batch is accepted as satisfactory, and if below the lower line, the whole batch is rejected as unsatisfactory.

This is only a brief description of the sequential method; sufficient if it shows that it not only saves materials, but also the time of expensive personnel. For instance, a representative sample of a batch may consist of one hundred items, but by sequential testing, it may be shown that a batch can be safely accepted or safely rejected after testing only twenty or thirty items or even less. Rarely, if ever, is it necessary to test the whole of what would be regarded as a representative sample before a decision is reached.

It is true that much of the saving resulting from making reasonably sure that the quality of materials is up to the required standard arises in production. But that is not a good reason for neglecting to take such a precaution. There can in any event also be savings in material costs arising from quality testing. Suppliers of materials are much more easily convinced of the defectiveness of a material on the evidence of a scientifically controlled test than of failure in production or use.

Classification of materials

One of the principal functions of the stock control section in any manufacturing establishment is providing and maintaining a good classification of the materials kept in store. In far too many establishments, the classification of materials has been allowed to evolve, with the result that it does not conform to scientific principles. Even in stores where only a few items of materials are kept, classification can be important; but the greater the number of items, the more important classification becomes.

Scientific classification eliminates duplication of stores by reducing a plurality of names for a given item to one. In some factory stores, items have been discovered with as many as ten or more different names and a store has been maintained under each name. Such discoveries have been made with the aid of scientific classification, and in some cases, many thousands of £ in annual costs have been saved in consequence.

I have gone into this problem of classification elsewhere[2]; but it will be worth while to restate the principles and discuss them briefly here with special reference to factory stores. There are five basic principles:

(1) the headings or classes must be mutually exclusive;
(2) the division into classes must be relevant;
(3) the classification must be exhaustive;
(4) the wording in a written classification must be concise, complete and free from ambiguity;
(5) the classification must be flexible so that it can accommodate new or additional items.

Stores groupings

The materials in most factory stores can be grouped into classes. The grouping is carried out stage by stage, dividing the genus *stores* first into species, then into classes and so on, that is, into first division headings, then second division and so on. The form of these will depend upon local circumstances. For many engineering stores, the best first division would be by stage of manufacture. Thus, the first division classes of materials would be:

Raw materials
Parts unfinished
Parts finished and single components
Sub-assemblies.

But if the stores also contains finished products for sale, tools and equipment, the first division would be made by reference to purpose:

Materials
Finished products

[2] E. J. Broster, 'Classification in Business', *The Chartered Secretary*, June 1965.

Tools
Equipment.

It will be observed that each successive division is made by reference to a single characteristic. If, for instance, we had two materials headings next in division to stage of manufacture, under finished parts, reading:

Guttering
Parts of asbestos cement

it would not be clear where the guttering of asbestos cement is supposed to be included. In other words, the two headings are not mutually exclusive: *guttering* is a class by reference to shape or function, *parts of asbestos cement* is a class by reference to material. It follows that to satisfy the first principle of classification, i.e. mutual exclusiveness, each successive division must be made by reference to a single characteristic. The choice of order to adopt in divisions depends on local circumstances. Generally, the characteristics common to the class being divided should have priority. Thus in a division of finished parts, function and material would fall before dimensions, whose character will vary with the product: wire nails by length, hammer heads by weight and so on. Function or shape should be given priority to material, so that all nails would be together, all screws together and all rivets together. Thus, we might have something like this:

Class and description	*Division*
Materials	1st
Raw	2nd
Unfinished parts	,,
Finished parts	,,
Screws	3rd
For wood	4th
Countersunk	5th
Of steel	6th
Gauge 4	7th
Length ½ in.	8th

This would be followed immediately by other lengths kept in the store, then by other gauges and so on, length being the final division, then by other metals, each specified in turn.

The insetting with successive divisions is not merely a convention in written classifications, it is useful in interpretation, and generally convenient. Each division's headings should be kept in alignment, so that when a new page is reached, at least the last previous division heading should be repeated at the top with the word 'continued' added. If, for instance, the example above for screws were continued on a new page, the page would begin:

Gauge 4 – *continued* –
  Length ¾ in.
  ,, 1 in.
  . . .
Gauge 5
  Length ½ in.
  . . .

This, however, is the minimum requirement. In beginning a new page for this item, it would be preferable to go back at least as far as screws.

The single characteristic criterion applies to each individual division and it does not mean that, say, a second order division for one heading must be by reference to the same characteristic as the second order division of other headings of the first order. For instance, rivets would need to be divided at one order into tubular, bifurcated, etc., whereas, at the same order, washers may be divided by diameter of hole. Once a class has been established, it can be sub-divided by reference to any single characteristic independently of the characteristics used for dividing other classes.

Eliminating duplication

The second principle of classification is relevance. This is more important than it may appear to be at first sight; for an irrelevant division would lead to duplication, which classification is designed to eliminate. For instance, a division could be made by reference to the names of the suppliers. But would this be relevant? Would it serve a useful purpose? If there are six suppliers of one item, there would be six separate stores of that item, or at any rate, six separate places or bins. If there are any doubts about the relative qualities from different suppliers, quality testing should, for the most part, eliminate them.

The third principle is exhaustiveness: the classification should provide for every item as an identifiable entity. There is no room in a stores classification for residual headings, such as 'Other types' and 'Miscellaneous'. Such headings may be sufficient to make a statistical classification exhaustive, but it would be unsatisfactory for a classification designed to identify every single item. Sets of helically grooved or twist drills and hand-tool kits would require headings to themselves, even though the individual sizes and tools are also separately stored. Sets and kits of small tools and hand tools are akin to sub-assemblies of parts.

The fourth principle relates to the wording of the written classification. This is less important in a classification of factory stores than in a classification containing residual headings. Sufficient to say that the wording should be appropriate and the terms used generally understood throughout the factory. Where different names for the same item have formerly been used in different parts of the establishment, the personnel concerned should be informed of the term to be used in the future. The short term is usually preferable, as for instance, *twist drills* rather than *cylindrical helically grooved drills.*

Numerical coding

Flexibility, the fifth principle, relates more to numerical coding than to classification, or rather to classification that is designed to form the basis of a numerical code than to written classifications in general.

Any good classification can accommodate additional

headings; but numerical coding imposes upon the classifier a special constraint: he must provide a least one spare number for each division. Since zero is used for indicating *no class* or all *sub-classes*, there are nine numbers – 1 to 9 – available for each digit. Allowing one of these to serve as spare for future expansion, we are left with only eight for immediate use, and the classifier needs to keep this in mind when he is making a division of a class. If it is impossible to keep a division down to eight sub-classes or less (and there are often ways and means of doing it – some a little arbitrary perhaps), he will require two digits of the code for the division, and allowing eleven for spares, he will have 88 numbers for immediate use.

The number of digits in the code should be the same for all items, its magnitude depending on the maximum requirement for any class of item. For instance, the example of the countersunk wood screws above shows eight divisions, and if we suppose that the third division requires two digits, and the rest one digit each, the code would require a minimum of nine digits. Where a sub-class of items does not require nine digits, zero would be inserted at some intermediate position to indicate *no class*, the last digit always being used for an item to show that the code relates to an item and not to a group of items. Where a code for groups of items is required as for stocktaking for instance, the last digit or digits, as the case may be, will be shown as zero.

The first digit indicates the first division – say, 1 for materials, 2 for consumable stores (lubricants, gas in cylinders, etc), 3 for small tools, 4 for hand tools, 5 for gauges and other measuring instruments, 6 for equipment (jacks, pulleys, work-holders, bench-vices, etc.), and 7 for finished products, leaving 8 and 9 as spares. The second division indicates, for materials, 1 for raw, 2 for unfinished parts, 3 for finished parts, and 4 for sub-assemblies.

Standardization

Under a system like this, with stocks recorded on punched-cards or computer tape, the total value of holdings at any division can quickly be ascertained. The appropriate nine-digit code for all finished parts, for instance, would be 130,000,000.

Compiling a written classification and coding it are standardization processes – the standardization of nomenclature and code numbers. They are an essential preliminary to the standardization of stores. Classification itself eliminates duplication of nomenclature and ambiguity; it supplies a standard unique term for each type: an item formerly variously known as a shank, spindle, pivot, shaft or axle, now has one name only; two items both formerly known as bolts, now have a unique name each, and such officialese variations on a theme as 'countersunk steel screws, wood', 'wood screws, steel, countersunk' and 'countersunk wood screws, steel' will have disappeared from the local jargon.

The next step is to translate the written classification into a physical classification of stores by arranging the items of stores as far as possible into the same order, each main class together with its several divisions. This process is likely to reveal some expensive absurdities in the existing system:

(1) it will bring together every item formerly with a variety of names, thus making it possible to reduce both the stock of the item and the space it occupies; and

(2) it will bring into close proximity items having the same immediate function, with the probability that a standard item will be found practicable for all uses; the result being: a reduction of stocks and space required, and the possibility of bulk purchase or bulk manufacture.

The final arrangement of stores to conform to the order of the written classification and code will result in a number of additional advantages:

(1) Since the code provides not only an identification of items but also of their location in the stores, time spent on identifying and searching is appreciably reduced.

(2) Checking physical stocks against recorded stocks is simplified, and stocktaking is transformed from an annual turmoil, as it all too often is, to a simple routine which can easily be carried out more frequently than once a year to provide basic information for management and to meet the London Stock Exchange's requirement of a half-yearly financial statement.

(3) Production and design engineers can more easily find an existing item of material or production equipment that will meet their requirements in respect of a new design or new product, thus saving the need to purchase or manufacture a new part or piece of equipment.

Needless to say, stores requisitions should always give the code number of the item in demand, and the description – if given at all – should be in terms of the written classification. Thus, to use the wood screws example again, it would read, briefly, for the exemplified order of divisions: screws, wood, c/s, steel, 4, ½ in.

Value analysis

Value analysis is a relatively new idea which, like many other ideas of practical value, originated in the U.S.A. The purpose is to effect savings in the annual cost of materials and also, to a smaller extent, of manufacture.

The work is carried out by an engineer or team based preferably in the purchasing office, and consists of breaking down a running product, first into its sub-assemblies and then into its individual parts. The team then examines each component, trying to give as objective an answer as possible to the following six questions in respect of each component:

(1) Does it contribute anything to the final product?

(2) Is its cost in proportion to its contribution?
(3) Can it be simplified?
(4) Is it the most suitable in design and material?
(5) Can a suitable alternative, such as a standard item, be made or bought at a lower cost?
(6) Are the most economical tooling and method used in its manufacture?

It will not always be possible to find an objective answer, and something will depend on the point of view. If the final product is a consumer good, the sales department may have to be consulted before the first and second questions can be answered, for a contribution to the final product need not be functional: it could provide a valuable selling point.

The methods examined above are some of the ways of effecting savings in the annual costs of materials and their storage. There are others, such as the provision of mechanical handling equipment, design planning, and buying parts from specialists instead of making them, or making instead of buying, and general re-organization of the system of stock control and storage, all of which are well worth considering, especially the first.

Sources of Company Profit

by GUNTER SCHMITZ

What is profit?

WE often speak of profit as the gross margin between the direct cost of production and the selling price. This is gross profit. Various items must be deducted to arrive at the pure or net profit. This is a residual item, a fluctuating return accruing to the entrepreneur after all the factors of production – including deductions for the entrepreneur's wages, interest on his capital, and a risk premium – have been remunerated.

What causes profit?

National economists have developed various theories regarding the question of whether and why there is something like a law of nature ensuring the yield of a certain amount of profit in the unhampered economic process of production, price information, and income distribution.

Although this search for the 'natural' source and justification of profit is very interesting, and although numerous contradicting theories have been advanced, no all-embracing down-to-earth solution has been found. This is difficult to conceive, the more so as a clear answer to this question would enable the entrepreneur to systematically enlarge and extend the sources of his profit.

Industrial economists are trying to fill this gap. What follows is a new approach which has the advantage of showing clearly, not only the sources of company profit, but also the ways in which these sources can be systematically enlarged.

It is believed that there are three distinct sources of company profit, viz:

(1) Productivity lead – (progress profit).
(2) Goodwill value – (goodwill profit).
(3) Monopoly status – (monopoly profit).

(1) Productivity lead

The market price is aligned to the production costs of the marginal producer. This is the producer with the highest production costs, but still required to satisfy the existing demand. (Production in this sense includes purchase, manufacture, administration, distribution, and research.)

Every producer working with production costs lower than those of the marginal producer gains a differential profit on top of his normal profit. As far as this differential profit arises from a productivity lead as compared with the marginal producer, it is a progress profit, e.g. due to a more favourable combination, or purchase, of production factors; new sales or distribution channels; more effective market penetration.

This progress profit is an additional profit accruing to the productivity leader. It is an honestly earned profit received for a better performance. Although this productivity lead tends to diminish in the course of time as other producers try to catch up with the leader, chances to gain progress profit increase:

(*a*) with increasing refinements of the technical means in production, administration, and marketing;

(*b*) with increasing markets;

(*c*) with the speed and spontaneity of technical developments;

(*d*) with changing business cycles and political situations.

Theoretically, a productivity lead pays a profit only as long as the lead versus the marginal producer is maintained. In practice, however, progress profit can be preserved for the future.

(2) Goodwill value

Productivity leaders will surely be caught up by their competitors sooner or later. Then their progress profit will disappear. This has been the conventional thinking on this subject.

Actually, however, progress profit can be preserved for a long period, and perhaps permanently, in the form of goodwill profit. Then the entrepreneur's profit is no longer provided by his productivity lead, but his profit now stems from a source which can be relied upon to last much longer.

Goodwill is created by telling and demonstrating to customers, authorities, suppliers, bankers, Press people, etc. (at a time when the productivity lead is at a peak) what an efficient, low-priced, likeable and human fellow the producer is. In short, the productivity lead is injected into the environment's subconscious. There it will last much longer than in the struggle for markets. It becomes goodwill. This goodwill of an enterprise tends to yield a permanent profit. As long as nobody can convince the environment to the contrary, it will believe in the progress lead. And to convince it to the contrary will be much more difficult for his competitors than it was for the productivity leader to gain this goodwill.

(3) Monopoly status

Progress profit and goodwill profit arise even in a completely free and unhampered economy. Progress profit is a differential profit. Goodwill profit comes in the form of a lasting absolute rent.

Monopoly profit is an added profit caused by a partial or complete monopoly enjoyed by the producer. This enables him to control the market supply and to take account of how changes in his output will affect the market price. Monopoly profit is limited by the demand for the product, the availability of substitute products, and a price so high as to attract competitors or Government intervention.

Conclusions

From this new profit approach it is understandable why national economists have had to drop the often-asserted theory of diminishing profits. It is not profit as such that is always in imminent danger of being eaten away, but only that element of profit which is here termed 'progress profit'. Yet this progress profit, too, can be preserved and increased if a productivity lead can be maintained. Moreover, by goodwill building, a temporary production lead is preserved and projected far into the future.

Mathematics in Accountancy – III

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IT is the intention of the present article to concentrate principally on the mathematical techniques in discounted cash flow analysis and electronic data processing.

Discounted cash flow analysis, then, is quite simply adjusting for time by what is known as the discount factor. The first aim of this part of the article is to show how easily this discount factor may be found and used with understanding, particularly by anyone who has had experience with compound interest or annuities.

We take Year 0 as the basis year. Generally this will be 'now', but it is not necessarily so. In some cases it is more convenient to take two years (say) in the future as the basis year, so that 'now' would be Year 2.

We move along the time scale on the basis of compound interest. Thus £100 at 8 per cent, say, means that the interest for one year is £8. In Year 1 the original £100 plus the £8 interest gives a new principal of £108.

Interest at 8 per cent on this is $£108 \times \frac{8}{100} = £8{\cdot}64$. In the form of a table:

TABLE 1

Year 0	..	100
Year 1	..	108
Year 2	..	116·64 (108+8·64)

Suppose we wish to find what sum, in Year 0, will give £1 in Year 2. We could call this the 'present value' of £1 in Year 2. To find it we note, from the table above:

£116·64 in Year 2 at 8 per cent compound interest was produced from £100 now, therefore, £1 in Year 2 at 8 per cent compound interest was produced from

$\frac{£100}{£116{\cdot}64}$ now, equals (by long division) £0·85734.

The present value of £1 in two years' time is, therefore, £0·85734, or £0·857 approximately. This factor (which as can be seen is the reciprocal of the figures in Table 1) is called the discount factor.

TABLE 2

		Discount factor (at 8 per cent)
Year 0	100	1·0
Year 1	108	0·926
Year 2	116·64	0·857

All discount factors are found in the same way, thus the factor for Year 1 is found by dividing 108 into 100 (i.e. $\frac{100}{108}=0{\cdot}926$ approximately).

It follows that £0·926 received or given now in Year 0 is worth the same to you as £1 received or given in Year 1, assuming that money can earn interest at 8 per cent.

If the interest rate is 7 per cent, the discount factors will be different, but they will be found by the same arithmetical method. Thus:

TABLE 3

	Discount factor (at 7 per cent)	
Year 0	1·0	
Year 1	0·935	$\left(=\frac{100}{107}\right)$
Year 2	0·873	$\left(=\frac{100}{114{\cdot}49}\right)$
Year 3	0·816	
Year 4	0·763	

All D.C.F. analyses, whether of the cost comparison or profitability types, are based simply on finding or estimating the net fund flow, after tax (if applicable) every year. The net fund flow each year is then brought back to its present value at Year 0 by multiplying by the appropriate discount factor. The present values are then added up and a comparison made.

On the face of it, one practical difficulty of considerable importance would seem to be the problem of choosing the appropriate interest rate (i.e. the 7 per cent or 8 per cent in the examples above). Obviously it will be very difficult to assess what the rate may be some years from now. So powerful, however, is the effect of the discount factor in the later years, that it will usually be found that the same decision will be indicated whether the rate chosen is altered by 1 or 2 per cent or not. Thus the discount factor for Year 10 is 0·508 at 7 per cent, and 0·463 at 8 per cent.

This problem does not arise in a profitability exercise of the type where the cost of capital is known. This internal rate of return is then used to calculate the present value of all the yearly net fund flows, and a direct comparison can be made between this total and the capital involved.

D.C.F. or present value tables are usually also prepared with cumulative totals. Thus £1 received every year for four years at 7 per cent will be £3·387 (i.e. the sum of years 1 to 4 inclusive in Table 3).

Two things should now be apparent: First, D.C.F. tables of the type shown in Tables 2 and 3, are exactly the same as compound interest tables, with the difference that the reciprocal must always be taken. Second, there is a close similarity between cumulative D.C.F. tables and annuity tables. They are not identical; the reciprocal of a sum is not equal to the sum of the reciprocals.

Mathematically these relationships may be shown fairly easily:

Let i be the interest (expressed as a fraction e.g. $\frac{7}{100}$ or $\frac{8}{100}$)

Start in Year 0 with £1

For Year 1 we shall have $1+i$

For Year 2 we shall have $(1+i)+i(1+i)=1(1+i)+i(1+i)=(1+i)\,(1+i)=(1+i)^2$

(i.e. the principal $1+i$, plus the interest on this principal)

For Year 3 we shall have $(1+i)^3$

For Year n we shall have $(1+i)^n$

Hence the discount factor is $\frac{1}{(1+i)^n}$ where n is the number of years.

For cumulative tables, which give the present value of £1 received yearly at end of year, and allowed to accumulate at the compound rate of interest i (i.e. the present value of an annuity for (say) N years), the calculation is as follows:

Using the formula already proved for the present value of £1 at year n, the cumulative sum is:

$$\frac{1}{(1+i)}+\frac{1}{(1+i)^2}+\frac{1}{(1+i)^3}+ - - - +\frac{1}{(1+i)^N}=S_N \quad \text{(say)}$$

Put $1+i=r$, then the sum becomes :

$$S_N=\frac{1}{r}+\frac{1}{r^2}+\frac{1}{r^3}+ - - - - - - +\frac{1}{r^N} \quad\text{.................... (1)}$$

Multiply both sides of this equation (1) by r, then:

$$rS_N=1+\frac{1}{r}+\frac{1}{r^2}+ - - - - - - +\frac{1}{r^{N-1}} \quad\text{....................(2)}$$

Now if we subtract (1) from (2):

$$rS_N-S_N=1-\frac{1}{r^N}\left(\text{as } \frac{1}{r}, \frac{1}{r^2} \text{ etc. all cancel out}\right),$$

i.e. $S_N\,(r-1)=1-r^{-N}$

but $1+i=r$, so that $r-1=i$, and the formula for the present value becomes: $S_N=\frac{1-(1+i)^{-N}}{i}$

The calculation is more difficult when the £1 sum is received continuously, rather than at the end of each year. This formula is useful, however, since continuous receipt is likely to be a better approximation to actual cash flow in many cases, than end of period receipt. Using the same symbols, we need the sum of

$\frac{1}{(1+i)^t} \cdot \delta t,$

i.e. using the calculus notation: $\int_0^N (1+i)^{-t} \, . \, dt$

We can solve this by putting $1+i=a$, and $t=-y$, so that the integral is of the form: $\int a^y \, dy = \int e^{y \log a} \, dy$ (though this work is rather beyond that covered in the last article).

. Again put $z=y \log a$, so that $dz=\log a \, dy$, and the integral becomes: $\frac{1}{\log a}\int e^z \, dz = \frac{1}{\log a} e^z$

Putting in the limits, and substituting back, the present value of £1 received continuously is:

$$\frac{1}{\log(1+i)}\left\{1-(1+i)^{-N}\right\}$$

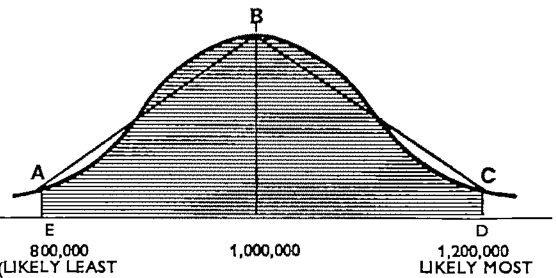
Tasmanian counting is fairly simple: one, two, plenty, and their vocabulary is exhausted. However, in our more sophisticated society we have ten symbols, 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, and when these are exhausted we use them in combinations for higher figures. Electronic computers, like Tasmanians, only know two symbols (0 and 1). But unlike Tasmanians, the computers combine these to cope with large numbers in a fashion similar to our own. So that the comparisons are:

Decanary code	*Binary code*
0	0
1 ($=2^0$)	1
2 ($=2^1$)	10
3	11
4 ($=2^2$)	100
5	101
6	110
7	111
8 ($=2^3$)	1000
9	1001
10	1010
11	1011
etc.	etc.

From this it is easy to see that 16($=2^4$) will be 10000 in the binary code, and so on. The larger the number, the more complex (relatively) is the binary code to the decanary, but not unreasonably so. As an example, 2^{50} will be, in the binary code, 1 with 50 noughts after it (i.e. 51 digits in all). In the decanary code it is a number with sixteen digits.

Computers use the binary code as there are only two things they can easily do to electricity – pass it or fail to pass it. However, they can do this enormously fast, in fact with the speed of light, and it is here that the real strength of a computer lies.

Computers can, of course, be used in a number of ways by accountants. We have already discussed present value analysis for the problem of the profitability of a proposed business. The calculation was based on an assumed future profit figure for each year. In practice it will be difficult to be so precise, and an answer to the problem of profitability can be indicated if the likely range is available. Thus, estimated sales may be (say) £1 million and the likely range from (say) £800,000 to £1,200,000. Most expenses, too, will have a range of probable values, and the best that can be said in practice is that any given one will very likely be between a certain figure and another one. What will be the effect of trying to take into account all the possible variations from a 'likely least' to a 'likely most' for each one? Taking again the case of sales, we can represent the situation graphically with an exponential probability curve something like this:



Note: Strictly the correct values are those within the shaded area of the curve. Unless very great accuracy is required, it will generally be sufficient to take values indicated by the polygon A B C D E (i.e. bounded by the lines AB and BC). In either case values outside the limits AE and CD are not taken, as being unreasonably unlikely.

The problem, then, is to find a technique which will take a large number of different values within the agreed limits and combine these with the different values (again within the likely least and likely most limits) for all those expenses and other items which cannot be assessed accurately. A computer can be programmed to select a large number of each, and then combine them in all possible combinations, giving a range of probable answers to the problem of finding what the net profit is likely to be. D.C.F. analysis can then be applied to these results. The value of this sort of operation is especially great where estimates for the variables can be given pretty accurately within limits. This is very often the case in practice. Thus rents receivable may, for statutory reasons, not rise with the cost of living over the years, but they will not fall below today's value. So that at one end – the likely least – the limit can be very accurately defined.

This type of technique can be applied in all cases where there are a number of variables and it is required to find the effect of their combination in all possible ways. Examples occur in financing and investment analysis, e.g. the best mix of shares, debentures, etc., to to be put on the market.

Where the number of variables is considerable, then computers can be employed, or certain of the new techniques in mathematics such as matrix algebra can be used. The practical value in problems where the best allocation of limited resouices is to be made (as in stock control or in transportation theory) is very substantial.

(*To be continued.*)

The Accounting World

Topics of Professional Interest from Other Countries

UNITED STATES

The Computer in Accountancy Education

FIFTEEN years after the installation of Univac I by the United States Bureau of the Census, and now that 25,000 electronic computers are in operation and another 10,000 on order, Mr Gordon L. Nielsen, of North-eastern University, writing in the *Accounting Review*, regrets the slowness of colleges and universities in integrating the computer into the basic curriculum for business students. He quotes the 1964 recommendations of a special committee of the American Accounting Association that undergraduate accounting students needed electronic data processing instruction in basic programming in or before the introductory accounting course; and also as an approach to problem-solving in a variety of accountancy courses, and as an integral part of the accounting systems course.

He believes that the importance of the computer to the maturing generation will be so great that computer familiarization should have its rudiments in the high school curriculum. In a first-year university course – possibly business mathematics or statistics – he would have several weeks of basic programming instruction. After that, simplified data processing models should be integrated with introductory and other accountancy courses, through lectures, classroom exercises and assigned problems.

Accounting Education and Practice

DISCUSSING the paradox that, at the very time when the mutuality of interests of teachers of accountancy and practitioners is being increasingly recognized, many college and university accounting departments are fast moving away from curricula that emphasize preparation for the Certified Public Accountants' examination, the *Journal of Accountancy* recently pointed out that, at the 1965 annual meeting of the American Accounting Association – a mixed body of academic professors of accounting and practitioners – there was more emphasis than ever on practical accounting problems in Government, industry, financial reporting and international relations. Yet emphasis was also placed on new developments in accounting education, such as mathematics in the accountancy curriculum, management games, and the need to attract better students – especially accounting majors – to the business schools.

There was general recognition, said the *Journal*, that the traditional business school and accounting curricula are too narrow and technical in content, so that educationists and practitioners were undertaking a healthy re-examination of the academic degree. More practical training was likely to be expected from employers, both in the profession and industry.

What the profession has a right to expect of the colleges and universities, in the *Journal*'s opinion, is graduates with a broader education, thus able to learn more quickly 'the tools of the trade'. The American Institute, to fulfil its part of the dual responsibility, had separated the formerly combined functions of education director and supervisor of the C.P.A. examination, a university dean being appointed in the former capacity, to link the practitioners, the teachers of accountancy and deans of the collegiate schools of business.

New York Stock Exchange Offers Computer Services

THE New York Stock Exchange is to offer computer services to its member organizations through a new subsidiary, Central Computer Accounting Corporation (C.C.A.C.), three large firms of certified public accountants being associated with the scheme.

By mid-1966 C.C.A.C. is expected to be in full operation for calculation of purchase and sales data, printing statements, margin accounting, etc. The president of the Stock Exchange is reported to have forecasted an investment in the project of $1·5 million during the next two years, break-even point to be reached by mid-1967 based on a charge of 50 cents for each trade processed in New York City. Services will ultimately be extended to non-member organizations. Time-sharing will enable C.C.A.C. simultaneously to do other data processing.

FINLAND

New Officers of Finnish Institute

AT a recent meeting of the Finnish Institute of Accountants, K.H.T.-Yhdistys Föreningen C.G.R. the following officers were elected for 1966:

President: Viljo Havu;
Vice-President: Uno Lönnqvist;
Members of Council: Messrs Veikko E. Hakala, J. V. Heikkonen, Stig Colliander, Antti Helenius and Matti Kauppinen.

AUSTRALIA

Decimal Currency Next Month

TO prepare the way for the introduction of Australia's decimal currency system next month, a nation-wide campaign is in progress to teach all sections of the community how to think and count in dollars. The larger business houses, along with banks, stock exchanges and similar organizations are operating their own training programmes. The Decimal Currency Board, responsible for implementing the change-over, is leading the national educational campaign.

Apart from its programme for the business community, the Board has recruited several thousand volunteer lecturers, including accountants, bank managers, business men and Government officials, to give free instruction to groups wishing to learn about the new currency. The Board has prepared some 20,000 special kits for the lecturers.

The Board's campaign aims at making clear that although decimal currency will be introduced on February 14th, the existing currency will still be in circulation for a dual currency period of approximately two years. This is the estimated time for the complete conversion of all business machinery to the decimal system.

Notes of both currencies and most of the coins have exactly equivalent values. The existing 10*s* note will be equal to the one-dollar note, the £1 note to the two-dollar note, the £5 note to the ten-dollar note, and the £10 note to the twenty-dollar note. The 5*c*, 10*c* and 20*c* coins will be exactly equal to the existing 6*d*, 1*s* and 2*s* coins. Pennies and cents will not, however, be exactly equal. One cent will be valued at 1·2 pence because there will be 10 cents to one shilling, instead of the present twelve pence.

The Board is also conducting a full-scale information campaign in the schools, partly on the premise that what the children know, adults will have to know also. Instruction manuals have been sent to all teachers and a well-known cartoon character, Dollar Bill, is sending a series of six brightly illustrated letters to each of the country's school children – a total of 15,600,000 letters in all.

MALAYSIA

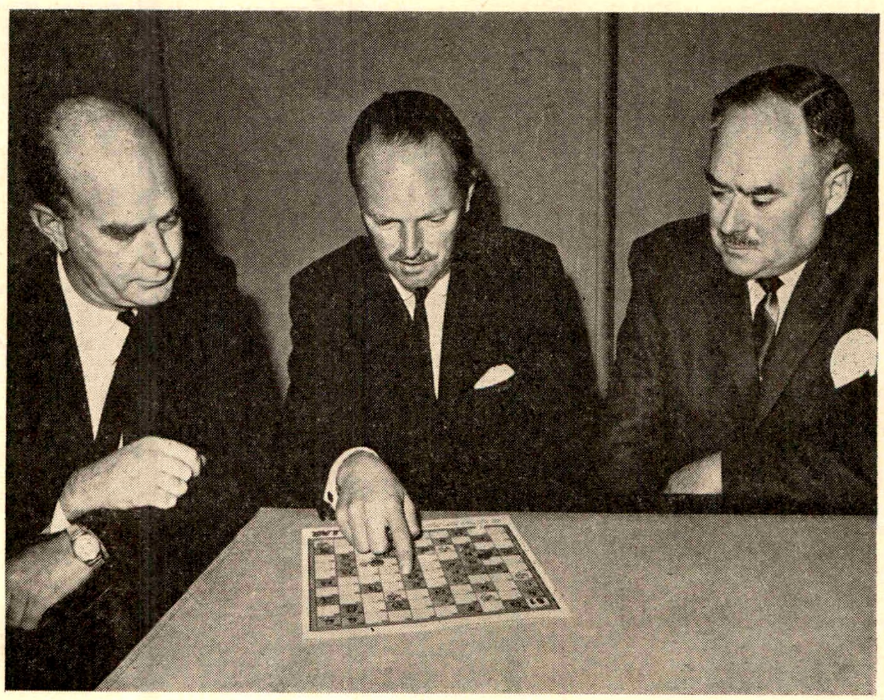
Capital Gains Tax Introduced

THE decision to introduce capital gains taxation in Malaysia is due to the fact that the Government has been virtually compelled, states Mr H. W. T. Pepper, in the *Bulletin of International Fiscal Documentation*, to introduce some form of capital gains tax because of the public spectacle of untaxed capital gains, especially those arising from real estate, being made in urban areas as a result of the increase in values caused largely by the development expenditure of the Government. Reading these lines, one is driven to reflect that Kipling was doubtless thinking of other things than taxation when he wrote his famous lines that 'East is East and West is West and never the twain shall meet'.

However, the tax is to be imposed at a maximum rate of 20 per cent, but the rate applicable to estates acquired before the date of the 1965 Budget will be scaled down from 20 per cent to 5 per cent according to the length of time the asset is held. In addition to an annual exemption of the first $5,000 of gains in order to encourage equity investment by the small man and the growth of a share-owning democracy (shades of modern Britain), there is an effective exemption of gains derived from assets held for more than ten years. Likewise, as in Britain, no capital gains tax is applicable to any gain derived from the disposal of the owner's private house. It is noteworthy that the latter exemption, in the words of Mr Pepper, 'is in line with the Malaysian policy of encouraging house ownership'.

There may have been a time when the emergent territories based their taxes on those of the mother country, but clearly, in the case of Malaysia, the Government seems to be learning very fast the merits of fiscal control.

In the Australian decimal currency education programme many new techniques and devices are being used to help Australians think in decimals. One private organization headed by Mr Jon Joinson, formerly public relations officer to the Decimal Currency Board, specializes in giving intensive instruction in decimal currency to business executives. Mr Joinson (*centre*) plays a game similar to snakes and ladders with two Melbourne company executives. The game was devised to give practice in making conversions from pound, shillings and pence to dollars and cents.



Finance and Commerce

K.M.T.

The accounts of K.M.T. (Holdings) Ltd, which form this week's reprint, are the first to be presented to shareholders following the marketing of the company's shares. Industrial & Commercial Finance Corporation publicly offered for sale half a million of the company's 5*s* ordinary shares last June at a price of 19*s* a share. That the offer was made by I.C.F.C. is an indication that the K.M.T. group had been earlier fostered by the Corporation. When the accounts went to shareholders the company's shares stood at 24*s* 6*d*.

It is still possible, even in this day and age, to read a company's report and accounts and still have only the slightest inkling of what the company does for its money, but that is far from the case in K.M.T. A table headed 'Financial Information', which is included in the reprint, shows the capital and borrowing formation, sales, profits as a percentage on sales, cash flow and how the profits are derived, and – at a glance – shows the salient points of the group's make-up and performance.

'Financial Information' appears to the right of a double page opening early in the report and, to the left, are the details of group companies with the companies' names and addresses, the directors and the nature of the business. The accounts are clearly presented with the necessary notes alongside and, with Cooper Brothers & Co as auditors, the books 'have been properly kept'.

K.M.T. (HOLDINGS) LIMITED AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st July, 1965

		1965 £	1964 £
Surplus on Trading (note 1)		403,885	286,502
Deduct: Taxation on the profit of the year (note 2) ..		140,941	155,682
Net profit after taxation		262,944	130,820
Exceptional items: Taxation adjustments — previous years ..		3,663	1,000
Non-recurring items		9,861	4,225
		276,468	136,045
Deduct: Expenses of increase of share capital and public issue		20,560	—
Consolidated net profit		255,908	136,045
Deduct: Dividends paid:	£		
8% First preference shares	6,400		6,400
8% Second preference shares	12,680		12,680
Preferred ordinary shares	6,211		10,869
Ordinary shares	28,549		24,980
	53,840		54,929
Proposed final dividend of 17½% on increased issued capital (1964 — 8¾% on £285,490) ..	87,500		24,980
	141,340		79,909
Less Income tax to be retained	57,195		30,965
		84,145	48,944
Profit Retained (note 8)		£171,763	£87,101

NOTES ON ACCOUNTS

	1965 £	1964 £
1. Surplus on Trading is after charging:		
Bank interest	14,973	11,537
Loan interest (gross)	6,649	6,755
Depreciation	70,869	56,718
Directors' emoluments:		
Fees as directors	1,050	750
Management remuneration	18,950	33,583
Compensation for loss of office	—	4,000
	20,000	38,333
Auditors' remuneration	3,891	3,340

Depreciation is calculated on the following straight line basis:
Buildings 2% per annum on cost or valuation
Plant, etc. 10% per annum on cost
Motor vehicles 25% per annum on cost

The surplus on trading includes £12,654 in respect of three new businesses acquired and commenced during the year.

	1965 £	1964 £
2. Taxation on the profit of the year:		
Profits tax	1,225	45,495
Income tax	(192)	120,230
Corporation tax	149,313	—
	150,346	165,725
Less: Relief arising from investment allowances	11,463	8,043
	138,883	157,682
Transfer to taxation equalisation	2,058	(2,000)
	£140,941	£155,682

Corporation tax is provided at 35%. An addition of 5% to the rate would result in a further charge against the profits of the year amounting to £19,750.

Good trading

The pre-tax profit of £403,885 was £43,885 ahead of the prospectus forecast – due, the chairman says, to exceptionally good trading in the last two months of the financial year 'and higher margins than could have been prudently anticipated.' The current year outlook would also seem brighter than at the time of the share offer. A total current year dividend of 27½ per cent is anticipated 'in the absence of marked deterioriation in business conditions', against a prospectus forecast of 25 per cent.

Since the balance sheet date, the head office of Monks & Crane Ltd, the engineers' cutting tools distributing subsidiary, has been sold at a price £27,000 in excess of the prospectus valuation. Its head office building in Birmingham will be vacated when new administrative head office and warehouse buildings are completed in Stafford.

This information is given in a review of the position and performance of each of the main subsidiaries. The accounts, the additional information and the tone and content of the statement combine to give the impression of an efficient, keenly managed and progressive organization.

Directors' report

A point to be noted is that there is no 'Chairman's Statement' as such with the report. The directors' report is signed by Mr B. C. Kirk, chairman, on behalf of the board and includes usual directors' report items – a director retiring by rotation, the continuance of the auditors in office – but also covers information on trading and subsidiaries' operations, together with comment on prospects which is usually provided in the chairman's statement to be taken as read at the meeting.

The varying treatment of the directors' report has been noted in this column on a number of occasions lately. In K.M.T.'s case – as in that of S. Smith & Sons (England) recently reported – the directors' report is combined with the chairman's statement, instead of combining the directors' report with the profit and loss account as a few companies do.

The form adopted by K.M.T. and S. Smith is worthwhile. It would not be surprising to find more companies adopting this policy. Meanwhile the K.M.T. directors are to be complimented on the presentation of their first public

K.M.T. (HOLDINGS) LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31st JULY, 1965

	£	1965 £	1964 £
CAPITAL EMPLOYED			
Preference share capital — parent company (note 3)		238,500	238,500
Ordinary shareholders' funds:			
Ordinary share capital — parent company (note 3)	500,000		347,600
Profit retained and other reserve (note 8)	196,283		176,920
		696,283	524,520
		934,783	763,020
Loan capital: (note 4)			
7½% Unsecured loan stock		85,000	85,000
Unsecured loan		4,000	4,800
Taxation equalisation		29,050	22,400
Deferred taxation (note 5)		219,046	168,761
		£1,271,879	£1,043,981
UTILISED AS FOLLOWS:			
Fixed assets:			
At cost or valuation less depreciation (note 9)		642,194	484,886
At cost less amounts written off —			
Loose tools		2,097	4,183
Goodwill and patents		52,584	2,502
		696,875	491,571
Current assets:			
Stock and work in progress (note 6)		845,611	664,248
Debtors		1,267,482	961,941
Quoted investments at market value		1,431	1,515
Cash		1,698	879
		2,116,222	1,628,583
Deduct: Current liabilities:			
Creditors		1,169,075	781,267
Bank overdraft		263,756	194,734
United Kingdom taxation		56,981	81,543
Proposed final dividend (net)		51,406	18,629
		1,541,218	1,076,173
Net current assets		575,004	552,410
		£1,271,879	£1,043,981

NOTES ON ACCOUNTS

3. Share Capital

(a) The whole of the preference share capital is redeemable at par at the option of the company after 31st July, 1979, but on or before 31st July, 1981.

(b) Following the special resolutions passed at the extraordinary general meeting of the company held on 21st June, 1965, the following alterations occurred in the authorised and issued share capital:

(i) The 8¾% Convertible preferred ordinary shares of £1 each authorised and issued as fully paid were converted into ordinary shares.

(ii) The 13,900 unclassified shares of £1 each authorised but not issued were redesignated ordinary shares.

(iii) The resulting 361,500 ordinary shares of £1 each (347,600 issued) were sub-divided into shares of 5/- each.

(iv) The authorised ordinary share capital was increased to £600,000 by the creation of 954,000 shares of 5/- each ranking pari passu with the existing ordinary shares of the company.

(v) An amount of £152,400 was appropriated from the company's share premium account and revenue reserve (note 8) for the issue to existing shareholders, as fully paid bonus shares, of 609,600 ordinary shares of 5/- each. 500,000 of these shares were made available to the public under the terms of the offer for sale dated 21st June, 1965.

4. Loan capital:

Parent company —

(a) The 7½% unsecured loan stock is repayable at the end of six years from 1st April, 1963, or thereafter by six months' notice on either side at the rate of £103 for every £100 of stock issued.

Subsidiary company —

(b) The unsecured loan of £4,000 is repayable by five annual instalments of £800 each ending on 31st August, 1969.

5. Deferred taxation:

	1965 £	1964 £
United Kingdom income tax —		
1964–65	—	46,967
Two-thirds of 1965–66	81,196	121,794
Provision for corporation tax payable 1st January, 1967	137,850	—
	£219,046	£168,761

6. Stock

Stock and work in progress is valued at the lower of cost and net realisable value, a basis consistent with the previous year.

7. General:

(a) There are commitments outstanding in respect of subsidiaries for capital expenditure amounting to £95,446 (1964 — £19,810).

(b) Group companies have guaranteed advances made by a third party to present and former employees, which, including £1,000 in respect of a former director, amounted to £6,770 (£6,405). Of this amount £4,255 (£3,890) has been guaranteed by the parent company.

accounts, with the hope that as the years go by the performance of the company will be kept in view by the inclusion of a statistical record in the report.

This year, next year

THIS column makes a new year plea for a common description in company accounts of what is 'this year', 'next year' or 'last year'. It is disconcerting to read one chairman referring to the year of the accounts as 'this year' while, to another company chairman, 'this year' means the current year. For him, what was 'this year' to the other chairman becomes the past year.

Admittedly most company chairmen refer to the year of the accounts as the 'year under review' or 'the past year'. The year in progress when the accounts are issued is usually described as 'the current year'. But it is disconcerting to find a chairman who describes the year of the accounts as 'this year' writing of what is normally considered the current year as 'next year'.

In one company report, recently issued, there appeared the following sentence 'Your directors *have* authorized an expenditure of £143,000 on machine tools during the year under review, of which £90,000 *is* for our new Sunderland factory'. The meaning is clear enough but it is this kind of sentence which tends to stop the reader in his tracks, as well as the out-of-order reference to what constitutes this year or next.

Pillar sales

COMMENT has been made in this column in the past on the way in which some companies tuck away a turnover figure in the annual report as if it were something to hide rather than report.

Tucked away on page 29 of the thirty-two page report of Pillar Holdings Ltd is a sales figure of 'approximately £21 million which includes television rental, installation and servicing income', with the additional information that 'the substantial sales of the merchanting companies in the group are made at comparatively low margins but yield a satisfactory return on capital employed'.

This paragraph on sales is item 3 in 'Group Financial Statistics'. Item 2 provides the information that of pre-tax profits, aluminium and building products provided 67 per cent (against 54 per cent) in the previous year, engineering 21 per cent (against 29 per cent) and merchanting, publishing and television relay and rental 12 per cent (against 17 per cent).

There is a case for maintaining, as the Pillar directors do, that the sales figure could be 'misleading' – but it would not be misleading, surely, if the figure was given greater prominence and was broken down in the same way as profits.

The Pillar organization, incidentally, has virtually completed a reorganization and consolidation programme and this, it may be hoped, will next year lead to less complicated accounts which this year need six pages of notes.

K.M.T. (HOLDINGS) LIMITED AND SUBSIDIARIES

FINANCIAL INFORMATION

	1965 £
Capital: Preference shares	238,500
Ordinary shares	500,000
Profits retained in the business	196,283
Shareholders' capital	£934,783
Other borrowings:	
Unsecured loan and loan stock	89,000
Bank overdraft	263,756
	£352,756
Group sales to outside customers	£5,502,777
Percentage of profit to sales	7.3%
Profit before taxation	403,885
Taxation	140,941
Exceptional items	7,036
Profit available	255,908
Preference dividend (net)	11,448
Profit accruing to ordinary shares	244,460
Cash flow: Depreciation provided	70,869
Profit retained	171,763
	£242,632

Profit derived from: Distribution of engineers' cutting tools	45%
Manufacture of cutting tools	24%
Mechanical engineering	14%
Steel stockholding	17%
	100%

Number of employees	[illegible]

NOTES ON ACCOUNTS

8. MOVEMENTS IN RESERVES

	CAPITAL RESERVE	REVENUE RESERVE	
	Share Premium Account £	Unappropriated Profit £	TOTAL £
Totals at 31st July, 1964	12,050	164,870	176,920
Applied to bonus issue	(12,050)	(140,350)	(152,400)
Profit retained (page 51)	—	171,763	171,763
TOTALS AT 31st JULY, 1965	£ —	£196,283	£196,283

9. MOVEMENTS IN FIXED ASSETS

	Freehold land and buildings £	Leasehold land and buildings £	Plant, equipment and motor vehicles £	TOTAL £
Cost or valuation at 31st July, 1964	194,332	96,032	436,398	726,762
Net additions at cost	44,010	46,633	127,714	218,357
COST OR VALUATION, 31st JULY, 1965	238,342	142,665	564,112	945,119
Depreciation, at 31st July, 1964	14,341	16,417	211,118	241,876
Amount set aside for the year	3,865	2,269	64,535	70,669
Adjustments in respect of disposals	(1,542)	—	(8,078)	(9,620)
DEPRECIATION 31st JULY, 1965	16,664	18,686	267,575	302,925
NET BOOK VALUE, 31st JULY, 1965	£221,678	£123,979	£296,537	£642,194

CITY NOTES

THE first week of the new year in the stock-market has hardly indicated a new year resolution on the part of investors to see the early part of 1966 in share-buying terms. That is not surprising since the week-end financial commentators seemed more intent on stressing the difficulties rather than the promise that the coming year holds.

The intensity of the pressure on profit margins is such that few industrial company chairmen are prepared to see 1966 in any other terms than a purely holding operation.

Third-quarter balance of payments figures, made known at the turn of the year, were an uncomfortable reminder that the recovery of sterling is still very much in the convalescent stage.

Should the Rhodesian situation drag on, its cost must be heavy in balance of payments terms, and the economic repercussions in the United States of the failure of present Vietnam peace moves have to be taken into account.

Throw in the probability of a 'tough' U.K. Budget next spring and it is hardly surprising that the stock-markets reflect doubt more than certainty.

* * * *

MUCH has been made of the fact that National Savings finished 1965 showing a dis-saving of £26 million, when the real surprise should be that it was, in fact, only £26 million. Speculation in Premium Bonds is, to be frank, the only real selling line that the National Savings Committee has on its shelves. Compounded interest in building societies is a better proposition than National Savings Certificates, and it is not exactly difficult to obtain a running yield of more than the 5 per cent gross offered on National Development Bonds. The Government still seems to be toying with the idea of some kind of national unit trust, and if toying brings action on this point it could, some think, be a lever for the introduction of a minimum limit on capital gains tax.

* * * *

THE January meeting of the Council of The Building Societies Association bids to be a crucial occasion. December's meeting found pressure building up for a recommended 7 per cent rate on mortgage loans although most of the leading societies – the Woolwich Equitable among them, to judge from the chairman's recent statements – seem at least prepared, if not content, to take the strain on their reserve resources.

All the same it is difficult, from outside the building society movement admittedly, to see what is so disastrous about 7 per cent mortgage loans if 7 per cent is the rate for the job. One aspect, however, on which in some quarters there may be grounds for concern is that if 7 per cent mortgages mean a smaller mortgage demand in the private sector, funds may have to be switched into the possibly less rewarding public sector under the movement's support of the Government's house building programme.

* * * *

THE total value of cheques and bills cleared through the Bankers' Clearing House in 1965 was £408,562 million – an increase of 15·2 per cent on 1964. Town clearings at £346,505 million rose 17 per cent, and general clearings at £62,057 million rose 6·4 per cent; credit clearings at £8,693 million rose 10·6 per cent.

RATES AND PRICES

Closing prices, Tuesday, January 4th, 1966

Tax Reserve Certificates: interest rate 28.11.64 $3\frac{1}{2}$%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	$5\frac{1}{2}$%	Feb. 27, 1964	5%
Mar. 22, 1962	5%	Nov. 23, 1964	7%
April 26, 1962	$4\frac{1}{2}$%	June 3, 1965	6%

Money Rates

Day to day	$4\frac{3}{8}$–$5\frac{5}{8}$%	*Bank Bills*	
7 days	$4\frac{1}{4}$–$5\frac{1}{2}$%	2 months	$5\frac{7}{8}$–$5\frac{15}{16}$%
Fine Trade Bills		3 months	$5\frac{7}{8}$–$5\frac{15}{16}$%
3 months	7–$7\frac{1}{2}$%	4 months	$5\frac{7}{8}$–$5\frac{15}{16}$%
4 months	7–$7\frac{1}{2}$%	6 months	$5\frac{7}{8}$–$5\frac{15}{16}$%
6 months	$7\frac{1}{4}$–8%		

Treasury Bills

Oct. 29	£5 8*s* 9·59*d*%	Dec. 3	£5 7*s* 5·32*d*%
Nov. 5	£5 9*s* 2·67*d*%	Dec. 10	£5 9*s* 4·64*d*%
Nov. 12	£5 9*s* 4·09*d*%	Dec. 17	£5 10*s* 3·74*d*%
Nov. 19	£5 9*s* 2·90*d*%	Dec. 23	£5 10*s* 5·88*d*%
Nov. 26	£5 7*s* 10·72*d*%	Dec. 31	£5 10*s* 5·08*d*%

Foreign Exchanges

New York	$2·80\frac{1}{4}$	Frankfurt	$11·23\frac{5}{16}$
Montreal	$3·01\frac{5}{16}$	Milan	$1751\frac{1}{32}$
Amsterdam	$10·12\frac{1}{4}$	Oslo	$20·01\frac{7}{8}$
Brussels	139·15	Paris	$13·73\frac{9}{16}$
Copenhagen	$19·29\frac{1}{8}$	Zürich	$12·10\frac{7}{8}$

Gilt-edged

As well as the usual prices quoted at the close of business on press day, we also give below the quarter-end prices.

	Dec. 31st, 1965	*Jan. 4th, 1966*		*Dec. 31st, 1965*	*Jan. 4th, 1966*
Consols 4%	$59\frac{7}{8}$	$59\frac{7}{8}$	Funding 3% 59–69	$90\frac{3}{16}$	$90\frac{1}{8}$
Consols $2\frac{1}{2}$%	$38\frac{11}{16}$	$38\frac{3}{4}$	Savings 3% 60–70	$85\frac{11}{32}$	$85\frac{3}{8}$
Conversion 6% 1972	$99\frac{7}{8}$	$99\frac{7}{8}$	Savings 3% 65–75	$75\frac{7}{16}$	$75\frac{1}{2}$
Conversion $5\frac{1}{4}$% 1974	$91\frac{3}{4}$	$91\frac{3}{4}$	Savings $2\frac{1}{2}$% 64–67	$95\frac{5}{16}$	$95\frac{1}{2}$
Conversion 5% 1971	$92\frac{1}{2}$	$92\frac{5}{8}$	Treasury $5\frac{1}{2}$% 2008–12	$85\frac{13}{16}$	$85\frac{15}{16}$
Conversion $3\frac{1}{2}$% 1969	$90\frac{15}{16}$	$90\frac{15}{16}$	Treasury 5% 86–89	$82\frac{1}{2}$	$82\frac{5}{8}$
Conversion $3\frac{1}{2}$%	$53\frac{5}{8}$	$53\frac{11}{16}$	Treasury $3\frac{1}{2}$% 77–80	$74\frac{1}{2}$	$74\frac{1}{2}$
Funding $5\frac{1}{2}$% 82–84	$88\frac{7}{8}$	$88\frac{13}{16}$	Treasury $3\frac{1}{2}$% 79–81	$72\frac{11}{16}$	$72\frac{11}{16}$
Funding 4% 60–90	$92\frac{3}{4}$	$92\frac{11}{16}$	Treasury $2\frac{1}{2}$%	$38\frac{13}{16}$	$38\frac{7}{8}$
Funding $3\frac{1}{2}$% 99–04	$58\frac{13}{16}$	$58\frac{7}{8}$	Victory 4%	$95\frac{3}{4}$	96
Funding 3% 66–68	$91\frac{5}{16}$	$91\frac{15}{32}$	War Loan $3\frac{1}{2}$%	$53\frac{5}{16}$	$53\frac{7}{16}$

Correspondence

Redundancy Payments

SIR, – In view of the Redundancy Payments Act, 1965, the majority of employers will have a permanent contingent liability in respect of employees who have served them for more than 104 weeks and, in accordance with the terms of Schedule Eight, Companies Act, 1948, this must be shown either as a reserve or by way of note.

After the judgment in *Owen v. Southern Railway of Peru Ltd* (36 T.C. 602; [1954] T.R. 335) it is highly unlikely that any amounts transferred to a reserve will be allowable for either income tax or corporation tax, but it may be that the Board of Inland Revenue, on representation by the profession, would consider allowing proper reserves by way of extra-statutory concession.

Yours faithfully,

Hertford, Herts. G. LITTLECHILD.

Forms of Audit Report

SIR, – With reference to the topical question whether it is better to say that books have been properly kept, than that proper books have been kept, I venture to suggest that the real intention of the Companies Act is that the auditor should state whether or not proper records have been kept.

This expression conveys not only that the subject-matter recorded is correct but that the way in which it has been recorded is satisfactory. Moreover, it is wide enough to cover anything from punched cards to magnetic tape. It would relieve auditors from the embarrassment of having to refer to books when everyone knows perfectly well that the records are no longer kept in books.

Yours faithfully,

London SW5. W. F. WEAVER.

SIR, – Once again at page 848 of your issue of December 25th the writer of your Finance and Commerce columns has approved and advocated the use in auditors' reports of the phrase 'properly kept' in place of a reference to 'proper books'.

Let us at least be clear about this: section 147 of the Companies Act requires the keeping of 'proper books', such books being those which are necessary to give a true and fair view of the affairs and explain the transactions of the company. The Ninth Schedule calls upon the auditors to state expressly whether this requirement has been complied with and whether the accounts are in accord with those books and show a true and fair view.

Your columnist appears to equate the proper writing up of books with the nature and scope of the books kept; but these are different matters. The equation appears to be erroneous. Books may be properly kept but their nature and scope may be inadequate to give a true and fair view of the affairs or explain the transactions. The statutory obligation on the auditor is to state whether the books kept are adequate for this purpose. There is no reason to think that Parliament intended otherwise, nor that the legislation is as deficient in logic as your columnist appears to imagine.

Yours faithfully,

A. NORTHERNER.

The Accountant Annual Awards for 1966

A LARGE number of entries have already been received for consideration for *The Accountant* Annual Awards for 1966, but those companies which have not yet submitted their reports and accounts presented at annual meetings in 1965 are reminded that they still have until January 31st to enter.

Entries should be addressed to The Secretary, *The Accountant* Annual Awards, 151 Strand, London WC2. The only qualifying condition is that companies' shares are quoted on a recognized stock exchange in the United Kingdom.

The Awards were instituted in 1954 to encourage the preparation by public companies of clearer and more informative annual reports and accounts. Two Awards are made each year – one to large companies and the other to 'smaller' companies requiring less complex accounts than those of a large group.

For Students

Practical Problems

Mercantile Law: Carriage by Rail

Question

Badger was travelling from London to Eastbourne. When the train reached Eastbourne he decided to remain on the train as far as Hastings intending to pay the excess at the other end. During the latter part of the journey and while he was in the buffet car, his suitcase was rifled and some money stolen. He claimed from the railway but they counter-claimed that:

(*a*) Badger should have kept his suitcase locked;

(*b*) as he was travelling without a ticket between Eastbourne and Hastings there was no contract and there was no basis, therefore, for the claim.

Discuss this problem.

Suggested Answer

Railways are liable for loss of passengers' personal luggage, subject to certain provisions and declarations as to the value etc., and assuming no negligence on the part of the passenger. It has been held that the liability remains if the passenger is in the dining car as he is there at the implied invitation of the railway.

In this case, were it not for certain other factors, the railway would be liable, but

(*a*) the fact that Badger had not locked his case may be taken as being contributory negligence so as to lessen or extinguish the railway's liability;

(*b*) inasmuch as this practice is recognized by the railway, and assuming Badger did pay the excess, then the company may be estopped from denying liability for the loss.

Breach of Contract

Question

Jim Tradfad had a cargo of artichokes for delivery to Lima. He contracted with Maverick Switchback, a shipowner, that Switchback would collect the goods at Bristol on November 27th. Tradfad paid a deposit of £200. On November 9th, Switchback wrote to Tradfad pointing out that he would be unable to fulfil the contract. Tradfad did not take any immediate action and on November 21st revolution broke out in Peru, an embargo being put on artichokes.

Tradfad subsequently sued Switchback for damages for breach plus return of deposit. Switchback claimed that the contract had been frustrated so as to excuse performance and further that he was entitled to retain the deposit as the loss must lie where it falls.

Discuss this problem.

Suggested Answer

Switchback has, by his letter of November 9th, indicated an intention not to perform. This is known as anticipatory breach of contract. Tradfad may elect to sue at once or may wait until time for performance arrives. He did, in fact, so wait and when the time came the contract was frustrated by impossibility. He could not sue for breach. As for the deposit, the loss lies where it falls, for the Law Reform (Frustrated Contracts) Act did not apply to the carriage of goods by sea.

Infants' Contracts

Question

Solomon Fly, aged 19, ordered a television set costing £80 from Heap. He assured Heap (whom he knew did not give credit to infants) that he was 22. Heap delivered the set but Fly did not pay. Heap then sought to recover the set but found that Fly had already sold it for £90. Heap brought action claiming:

(*a*) return of the set from third party; and

(*b*) the profit Fly had made on the sale; and

(*c*) damages for fraudulent misrepresentation; or

(*d*) the sale proceeds as received by Fly.

Discuss this problem.

Suggested Answer

Such contracts are void by the Infants Relief Act but Fly can give a good title to a third party who purchased in good faith. Heap cannot obtain the set nor could he obtain damages for fraudulent misrepresentation as this would be equivalent to enforcing a void contract (*Leslie Ltd v. Sheill*). As for the profit, in view of the fraud, equity may insist that this be handed over if still in Fly's hands. Similarly, Heap could claim the sale proceeds if they were still in the possession of Fly.

Executorship Law and Accounts

Questions

The following legacies appear in a will. You, as the executor, are asked how you would deal with them.

1. 'To my cousin T., eight paintings from my gallery' (note: the gallery contained sixty paintings).

2. 'To my niece P., £50 payable out of my 3 per cent Consols' (the Consols were subsequently sold by the testator).

3. 'To my solicitor, Q., £100' (this bequest appeared twice in the same will).

4. 'To my chauffer R., a gold watch' (the estate included no gold watches).

5. 'To my grandson B., £100 if he reaches 21' (the grandson died, after the testator, at the age of 17).

6. 'To my granddaughter £100' (the testator had four granddaughters).

7. 'To my sister C., £400, provided she never marries'.

8. 'To my friend D., my land in Kent, provided he first climbs Everest on stilts'.

9. 'To my friend E., my shares in Bluebottle Ltd, provided he refuses to pay calls on the shares'.

10. 'To my creditor V., £100' (£100 was in fact still owed to V., but he predeceased the testator).

11. 'To H., £200' (at the testator's death he owed H. £80).

12. 'To my son J., my railway shares' (after the will was made the railways were nationalized and transport stock issued in place of shares).

13. 'To L., my 4 per cent Government stock' (after the will was made, this was converted into 5 per cent Loan Stock).

14. 'To my son K., £2,000' (before his death, the testator gave £1,000 to K., this was a gift *inter vivos* and K. paid duty 30 per cent).

15. 'To my son M., £3,000' (M. predeceased the testator leaving two children).

16. 'To my wife, £8,000 to be forfeited if she remarries'.

Suggested Answers

1. T. can choose any eight pictures from the gallery. (*Jacques v. Chambers* (1846)).

2. Demonstrative legacy – fund disposed of – becomes general legacy.

3. Q. receives only £100 as wording is identical.

4. Gold watch to be purchased out of the estate.

5. Contingent legacy. Fails and goes into residue.

6. Uncertainty. Legacy fails.

7. Condition (absolute prohibition of marriage) fails being *contra* public policy. C. receives £400.

8. Impossible condition precedent but legacy fails being a device. (Would not fail if personalty – impossible conditions where the impossibility known to donor are ignored.)

9. E. takes free of illegal condition.

10. V. takes £100 in settlement of debt assuming debt existed when will was made (*Cranmers* case (1700)).

11. H. takes £200, part of which is in settlement of debt – assuming debt existed etc. (see 10), (*Leacroft v. Maynard* (1910)).

12. Would fail through 'ademption' unless Nationalization Act has a clause stating that the shares are not treated as adeemed.

13. Probably no ademption and legacy would not fail, L. receiving Loan Stock.

14. Net amount of gift *inter vivos* brought into account therefore K. will receive £1,300.

15. £3,000 paid into M.'s estate.

16. Wife would receive £8,000 subject to condition – distinguish from question 7 where gift was in total restraint of marriage.

Southend Chartered Accountants' Dinner

SPEAKING at the recent annual dinner of the Southend-on-Sea Chartered Accountants' Group, Sir Harold Gillett, Bt, M.C., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, said it was incumbent upon members to continually press for advances within the profession.

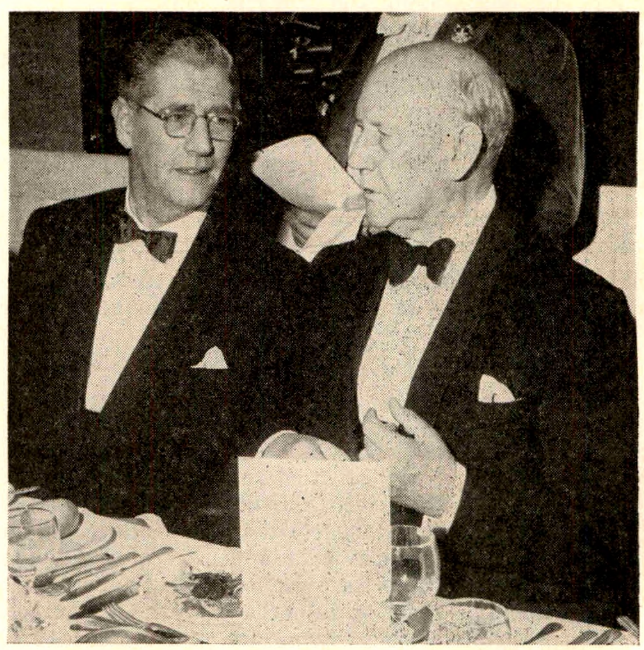
'We are a great profession,' he said, 'with a great future in front of us. But it is not enough just to belong to the profession. We must keep up with the Joneses.'

Sir Harold emphasized the need for proper training of juniors, and touched on a training scheme envisaged by the Institute. 'The whole articled clerk system may see changes in the future,' he said. 'It may be best to give youngsters academic training before their practical training commences, for it is essential that we keep our education system right up to date.'

He mentioned the numerous accountancy courses available to members, planned through 1966 and into 1967, and added that the Institute was already doing a lot in the way of education by producing books on accountancy, some of which were 'best sellers'. The two recent publications on corporation tax and capital gains tax had already sold more than one hundred and forty thousand copies.

Responding to Sir Harold, who was proposing the toast to the Southend Group, Mr Eric W. Matthams, F.C.A., A.C.W.A., Chairman of the Group, said 'We are glad to see the Institute is alive to our problems. We feel this is a wind of change which we would whole-heartedly welcome in Southend.'

He added that it was one of the declared intentions of the Council to improve the image of the Institute to the public by the use of various media. 'I venture to suggest that one day we may even have a public relations officer using commercial television to advertise the services of the accountant,' he concluded.



Mr Eric W. Matthams, F.C.A., A.C.W.A., Chairman of the Group (*left*), with Sir Harold Gillett, Bt, M.C., F.C.A., a member of the Council of the Institute.

The Institute of Chartered Accountants in England and Wales

Advanced Electronic Data Processing Conference

As previously announced, the Institute will be holding an Advanced Electronic Data Processing Conference at Trinity College, Cambridge, from March 15th to 19th, when it is hoped that the Rt Hon. Ernest Marples, P.C., M.P., F.C.A., will, other commitments permitting, take the chair.

The object of the conference is to promote the exchange of views on subjects of mutual interest between members of the Institute and others experienced in the use of computers. The following programme of lectures and presentations has been arranged to provide a logical progression through the subject at an advanced level. Each lecture or presentation will be followed by discussion either in syndicates or generally:

I – LECTURE
'Current concepts in the use of computers; their implications and development', by Mr A. B. Toan, Jun., C.P.A., Price Waterhouse & Co. *Chairman:* Sir Joseph Latham, C.B.E., F.C.A., Vice-Chairman, Associated Electrical Industries Ltd.

II – PRESENTATION
'The use of current computer concepts in inventory management and other management control techniques', by Mr B. E. Friend, F.C.A. Comptroller, Esso Petroleum Co Ltd. *Chairman:* Mr B. R. V. de Ferranti, M.A., M.I.E.E., Managing Director, International Computers and Tabulators Ltd.

III – LECTURE
'The use of computers and the role of management science in planning business operations', by Mr D. S. Smith, M.A., F.C.A., The Finance and Planning Director, Agricultural Division, Imperial Chemical Industries Ltd. *Chairman:* Professor J. R. N. Stone, C.B.E., M.A., P. D. Leake Professor of Finance and Accounting, Cambridge University.

IV – LECTURE
'The place of the computer in the management structure – and its operating efficiency', by Mr D. W. Hooper, M.A., F.C.A., Technical Officer, The Institute of Chartered Accountants in England and Wales. *Chairman:* Sir Kenneth Anderson, K.B.E., C.B., Deputy Director-General, The Post Office.

V – PRESENTATION
'The use of the computer in the audit of computer systems', by Mr L. W. Shaw, B.SC., F.C.A., Price Waterhouse & Co. *Chairman:* Mr A. F. Earle, PH.D., B.SC.(ECON.), Principal of The London Graduate School of Business Studies.

VI – PRESENTATION
'New developments in multi-processing equipment, communications and software, and their relevance to new methods of business control', by Mr J. P. Hough, F.C.A., Robson Morrow & Co. *Chairman:* Mr M. A. L. Banks, Deputy Chairman, British Petroleum Co Ltd and President of the British Computer Society.

VII – LECTURE
'What effect should the new computer techniques have on the processing of business information for decision-making by management?', by Mr H. Vermeulen, Directie Administratie, N.V. Philips Gloeilampenfabrieken, Nederland. *Chairman:* Mr G. B. R. Feilden, F.R.S., Group Technical Director, Davy-Ashmore Ltd.

VIII – LECTURE
'Peering into the future at the probable impact of total information systems and real time processing on the way businesses are controlled', by Mr F. Kaufman, C.P.A., Lybrand, Ross, Bros & Montgomery. *Chairman:* Professor M. V. Wilkes, M.A., F.R.S., The University of Cambridge Mathematical Laboratory.

Members of the Institute and others who have considerable experience of the application or operation of computer systems are invited to write to The Secretary, The Institute of Chartered Accountants in England and Wales, City House, 56–66 Goswell Road, London EC1, for a form of application and more details of the conference. The inclusive conference fee (with accommodation) will be £65. If the conference is over-subscribed by the closing date for applications (February 5th, 1966), a ballot will be held.

DATA TRANSMISSION AND SERVICE BUREAUX COURSES

Courses in data transmission and service bureaux are to be held by the Institute at the Hotel Metropole, Brighton, from February 21st to 25th.

Application forms for members wishing to attend the courses are available from the Secretary of the Institute, City House, 56–66 Goswell Road, London EC1.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Accounting: basic financial, cost, and control concepts; by W. T. Anderson, C. A. Moyer and A. R. Wyatt. New York. 1965. (John Wiley, 68*s*.)

Book-keeping in the Hotel and Catering Industry; by R. Kotas. 1965. (Evans Bros, 21*s*.)

Book-keeping Modernised: or, merchant-accounts . . .; by J. Mair: fourth edition. Edinburgh. 1786. (Sotheby, *c.* £10.)

Byles on Bills of Exchange: the law of bills of exchange, promissory notes, banknotes and cheques; by Sir John B. Byles: twenty-second edition by M. Megrah and F. R. Ryder. 1965. (Sweet & Maxwell, 126*s*.)

Choice in Welfare 1965; by R. Harris and A. Seldon. 1965. (Institute of Economic Affairs, 105*s*.)

The Conflict of Laws; by R. H. Graveson: fifth edition. 1965. (Sweet & Maxwell, 63*s*.)

Corporation Tax: I – general provisions of the Finance Act, 1965. (Association of Certified and Corporate Accountants.) 1965. (A.C.C.A., 10*s*.)

Covenants, Settlements and Taxation;

by G. B. Graham: third edition. 1965. (Solicitors' Law Stationery Society, 17s 6d.)

The Finance Act 1965; edited by D. Bruce-Jones. 1965. (Butterworths.)

* Internal Auditing; by W. W. Bigg, F.C.A. and J. O. Davies, F.C.A.: third edition. 1965. (HFL, presented, 25s.)

Land Values: . . . report of the proceedings of a colloquium . . . March 13 and 14 . . .; edited by P. Hall. 1965. (Sweet & Maxwell, 18s 6d.)

The Making of Business Contracts; by A. H. Boulton. 1965. (Sweet & Maxwell, 35s.)

Managerial and Engineering Economy: economic decision-making; by G. A. Taylor. Princeton, New Jersey. 1964. (Van Nostrand, 77s 6d.)

Modern Capitalism: the changing balance of public and private power; by A. Shonfield. 1965. (O.U.P., 55s.)

Time and Motion Study: design and measurement of work; by R. M. Barnes: fifth edition. New York. 1963. (Wiley, 72s.)

Performance and Profitability: a manual of productivity and cost reduction techniques for industry and commerce; by M. J. Clay and B. H. Walley. 1965. (Longmans, 63s.)

Public and Private Enterprise; by J. Jewkes. 1965. (Routledge & Kegan Paul, 12s 6d.)

Revenue Law comprising income tax, surtax, capital gains tax, profits tax and corporation tax; estate duty; stamp duties; tax and estate planning; by B. Pinson: second edition. 1965. (Sweet & Maxwell, presented, 75s.)

A Short system of Arithmetic and book-keeping . . .; by R. Hamilton: second edition. Edinburgh. 1796. (Sotheby, c. £15.)

Silke on South African Income Tax . . .; by A. S. Silke: fourth edition. Cape Town. 1965. (Juta, 152s.)

Statistics for Accountants; by R. Brockington, A.C.A. 1965. (Gee, presented, 22s 6d.)

Steel Foundry Costing. (British Steel Founders' Association). 1965. (Gee, presented, 37s 6d.)

Towards Better Fees; by D. Steele, F.C.A. 1965. (Institute of Chartered Accountants, 5s.)

Wheldon's Cost Accounting and costing methods; by H. J. Wheldon: eleventh edition by L. W. J. Owler and J. L. Brown. 1965. (Macdonald & Evans, 30s.)

The Young Accomptant's Debitor and Creditor: or an Introduction to merchants accounts after the Italian Manner . . .; by A. Nicholas: second edition. 1713. (Sotheby, £32.)

*This book has been presented to all district Society Libraries under the grant of books scheme.

Notes and Notices

THE ACCOUNTANT
Index to Vol. CLIII: July–December 1965

The general index to Vol. CLIII – July to December 1965 – is published with the present issue. The parts of this volume, with the index, can now be sent for binding.

PROFESSIONAL NOTICES

MESSRS ALBAN & LAMB, Chartered Accountants, of Cardiff and Newport, Mon, announce that as from January 1st, 1966, they have taken into partnership the following members of their staff: Mr DONALD THOMAS REDDING, A.C.A., and Mr DAVID PETER EDWARDS COLE, A.C.A.

The partners of the following firms of Chartered Accountants have reached agreement for complete amalgamation as from January 1st, 1966: ALLNUTT GREEN & Co, 3/4 Clement's Inn, London WC2; BUTTON, STEVENS & WITTY, Dashwood House, Old Broad Street, London EC2; GEORGE COBLEY & Co, Sardinia House, 52 Lincoln's Inn Fields, London WC2; WEST & DRAKE, Sardinia House, 52 Lincoln's Inn Fields, London WC2, Market Place, Reading, Lloyds Bank Chambers, Newbury, and High Street, Bracknell; TAYLER, HOUNSFIELD & Co, Coventry House, South Place, Moorgate, London EC2, and 10 Station Parade, London SW12.

In London the practice will be carried on under the name of ALLFIELDS at the above addresses pending removal to central offices. The partners of ALLFIELDS are Messrs H. M. CLUTTON-BROCK, L. C. DODGE, M. FARMER, J. F. GLENISTER, J. G. GOODIN, D. H. HARDING, I. G. HIGHLEY, J. C. HOUNSFIELD, D. H. M. JONES, L. A. MANN, J. A. OLIVER, G. M. RICHARDS, R. O. ROBINSON, J. D. C. STONE, J. D. TANNER, S. VAREY, W. R. WARD, H. R. WATES and F. R. WITTY. In Reading, Newbury and Bracknell the practice will continue to be carried on under the name of WEST & DRAKE. The resident partners will be Messrs S. VAREY, I. G. HIGHLEY and J. D. TANNER at Reading, Mr H. M. CLUTTON-BROCK at Newbury and Mr D. H. M. JONES at Bracknell.

MESSRS BALL, BAKER, DEED & Co, of Lloyds Bank Buildings, 55–61 Moorgate, London EC2, announce that as from January 1st, 1966, they amalgamated their practice with that of Messrs WILLIAM S. OGLE & Co, of Norfolk House, Laurence Pountney Hill, London EC4. The style of the new partnership will be BALL, BAKER, DEED & Co (Incorporating WILLIAM S. OGLE & Co). The combined practice will be conducted from Lloyds Bank Buildings, by the present partners of the two firms, namely: Messrs J. A. DEED, M.A., F.C.A., W. R. TOMKINSON, T.D., M.A., F.C.A., R. P. CHAMBERS, F.C.A., K. N. RANKIN, C.A., J. W. ROWAND, C.A., M. ST A. MOORE, F.C.A., G. L. A. DAVIS, F.C.A., C. H. W. POWELL, F.C.A., L. A. COX, F.C.A., R. C. COBDEN, A.C.A., A. N. J. SULLIVAN, F.C.A., H. J. D. FINCHETT, F.C.A.

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND, announce that their South African firm have amalgamated with CHARLES S. FREAKE & Co, of 304–312 Permanent Buildings, 42 Terminus Street, P.O. Box 357, East London, South Africa.

MESSRS COOPER BROTHERS & Co and and COOPERS & LYBRAND announce

that Mr RICHARD GRAY COTTRELL, C.A.(S.A.), has been admitted to partnership in their Iranian firm.

MESSRS COOPER BROTHERS & CO, and COOPERS & LYBRAND announce that as from January 1st, 1966, they have taken into partnership in London, Mr CHARLES BERNARD WULCKO, F.C.A., and Mr JOHN CHARLES WORMLEIGHTON COX, A.C.A.

MESSRS COOPER BROTHERS & CO, and COOPERS & LYBRAND announce that as from January 1st, 1966, they have taken into their Northern partnership Mr FRANK ALAN RAVENSCROFT, F.C.A.

MESSRS COOPER BROTHERS & CO, and COOPERS & LYBRAND announce the appointment of Mr WILFRID MOLYNEUX, F.C.A., Mr MATHEW MITCHELL ARMOUR, M.A., C.A., and Mr ALAN WILLIAM BROOKLAND, F.C.A., as directors of their unlimited companies in London, COOPER BROTHERS & CO, and COOPERS & LYBRAND.

MESSRS COOPER BROTHERS & CO and COOPERS & LYBRAND announce that they have taken into partnership in Ndola, Zambia, Mr JOHN ANTHONY WOOD, A.C.A., C.A.(S.R.).

MESSRS EDWARD THOMAS COLLINS & SON and KINNERSLEY & SHIPTON, Chartered Accountants, announce that their address is now Colkin House, 16 Oakfield Road, Clifton, Bristol 8. Telephone Bristol 30291.

MESSRS ROLAND DAWES & CO, Chartered Accountants, of 42–46 Hagley Road, Birmingham 16, announce that, following the death on July 19th, 1965, of Mr GEORGE ROLAND DAWES, F.C.A., his son, Mr HOWARD ANTHONY LEIGH DAWES, A.C.A., has been admitted to the partnership.

MESSRS LAWRENCE FENTON, MASTERS & CO, Chartered Accountants, of 28 Gray's Inn Road, London WC1, announce that they have admitted into partnership with effect from January 1st, 1966, Mr NORMAN FETTERMAN, A.C.A., who has been associated with the firm for some time.

MESSRS MACNAIR, MASON, EVANS & CO, Chartered Accountants, of Capel House, 62 New Broad Street, London EC2, announce that on January 1st, 1966, they admitted to partnership Mr M. DE M. A. STEWART, A.C.A., who has been a senior member of the staff for some years.

MESSRS NORMAN & WHITEHEAD, Chartered Accountants, of London, announce with regret, the death on December 23rd, of Mr HARRY WEBBER, F.C.A., a partner of their firm.

MESSRS HARVEY PREEN & CO, Chartered Accountants, of London, Birmingham, Bristol, Stratford-upon-Avon and Yeovil, Messrs GILBERT SHEPHERD, OWEN & CO, Chartered Accountants, of Cardiff, and Messrs PEARCE, COLLINS & CO, Chartered Accountants, of Yeovil, announce that as from January 1st, 1966, they are merging their practices under the name of HARVEY PREEN & CO. At the same time, they will be taking into partnership Mr DAVID R. B. GRIFFITHS, F.C.A., who has served in a senior capacity at the Cardiff office for some years.

MESSRS RICKARD & CO, and RICKARD PORTER & CO, Chartered Accountants, announce that on December 31st, 1965, Mr D. E. HEADY, F.C.A., retired from the partnership. The Romford practice is being continued by Mr HEADY under the style of DONALD HEADY & CO.

MESSRS SIDFORD & KEEN, Chartered Accountants, announce that with effect from January 1st, 1966, their practice will be associated with that of Messrs R. H. MARCH SON & CO, Chartered Accountants, and that they will practise from 21 College Hill, Cannon Street, London EC4. The existing partners will be joined in partnership by Messrs A. H. HART, F.C.A., M. A. JORDAN, F.C.A., and P. LAWRENCE, F.C.A., all of whom are partners in R. H. MARCH SON & CO.

MESSRS STEPHENSON SMART & CO, Chartered Accountants, (York office) (partners Mr GEORGE GOODALL, F.C.A., and Mr JOHN HOLROYD, F.C.A.), of Club Chambers, Museum Street, York, and Messrs HUNTER & GEE, Chartered Accountants (partners Mr DAVID HUNTER, A.C.A., A.T.I.I., and Mr SIDNEY GEE, F.C.A., A.T.I.I.), of 76A Goodramgate, York, announce the amalgamation of the two firms as from January 1st, 1966, to form a partnership to be known as Messrs GOODALL, HOLROYD, HUNTER & GEE, Chartered Accountants, whose offices will be at Club Chambers, Museum Street, York.

MESSRS STOY, HAYWARD & CO, Chartered Accountants, of 97 and 99 Park Street, London W1, announce that Mr C. METLISS, F.C.A., retired as a partner in the firm on December 31st, 1965, and that Mr D. K. HARRIS, A.C.A., who has been with the firm for some years is admitted into partnership with effect from January 1st, 1966.

MESSRS TANSLEY WITT & CO, Chartered Accountants, of London, announce that as from January 1st, 1966, they are admitting into partnership Mr E. G. BARRATT, A.C.A., who has been with the firm for a number of years.

MESSRS WILLIAM S. OGLE & CO, of Lawrence Pountney Hill, London EC4, announce that as from January 1st, 1966, they amalgamated their practice with that of MESSRS BALL, BAKER, DEED & CO, of Lloyds Bank Buildings, 55–61 Moorgate, London EC2, under the style of BALL, BAKER, DEED & CO (Incorporating WILLIAM S. OGLE & CO), with offices at Lloyds Bank Buildings, 55/61 Moorgate, London EC2. The combined practice will be conducted by the present partners of the two firms, namely: Messrs J. A. DEED, M.A., F.C.A., W. R. TOMKINSON, T.D., M.A., F.C.A., R. P. CHAMBERS, F.C.A., K. N. RANKIN, C.A., J. W. ROWAND, C.A., M. ST A. MOORE, F.C.A., G. L. A. DAVIS, F.C.A., C. H. W. POWELL, F.C.A., L. A. COX, F.C.A., R. C. COBDEN, A.C.A., A. N. J. SULLIVAN, F.C.A., H. J. D. FINCHETT, F.C.A.

Appointments

Mr F. W. Barnes, A.A.C.C.A., A.I.M.T.A., has been appointed Kent Area Accountant of the South Eastern

Electricity Board to succeed the late Mr W. F. Barker, C.A.

Mr R. E. Forster, A.C.W.A., a director of Bernard Wardle (Everflex) Ltd and Bernard Wardle Fabrics Ltd, and group cost accountant, and Mr I. L. Davies, A.C.A., secretary of Bernard Wardle & Co Ltd and secretary and chief accountant of Bernard Wardle Fabrics Ltd, have been appointed to the board of the parent company.

Mr Raymond A. Moulton, B.COMM., A.C.A., has been appointed financial controller of Remington Rand (Ireland) Ltd.

Mr Brian Nurney, A.C.W.A., has been appointed general manager, Oil Seals Division of U.S. Industries Inc. Engineering Ltd.

Mr N. W. Sprunt, A.C.A., has been appointed secretary of Levy & Franks Ltd.

Mr W. G. Truby, B.A.(ECON.), A.C.A., has been appointed deputy chief accountant of the Bristol and West Building Society.

Mr A. W. White, F.C.W.A., has been appointed group accountant for The Mitchell Construction Kinnear Moodie Group Ltd.

OBITUARY

H. Webber, F.C.A.

We have learned with regret of the death on December 23rd, of Mr Harry Webber, F.C.A., a partner in the firm of Norman & Whitehead, Chartered Accountants, of London.

Mr Webber, who was articled in 1926 to Mr Henry Norman, F.C.A., the senior partner of his firm, was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1931. He became a partner in Norman & Whitehead in 1948.

A former warden of Richmond District Synagogue, Mr Webber represented various district synagogues on the Council of United Synagogues. He also served on a number of committees associated with Jewish communal enterprises.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The next luncheon meeting of the London and District Society of Chartered Accountants will take place on Tuesday, January 18th, at the Connaught Rooms, Great Queen Street, London WC2, at 12.30 for 1 p.m. The guest speaker will be Mr S. T. Ryder, managing director of Reed Paper Group Ltd, who will continue the series 'Look at a Chartered Accountant'.

Data Processing Discussion Group

The first meeting in the New Year of The London and District Society of Chartered Accountants' Data Processing Discussion Group will be held on Tuesday, January 11th, at 6.30 p.m., at The Little Ship Club, Bow Wharf Lane, London EC4, when Mr H. Longman of Unilever Ltd will speak on 'Integrated data processing other than by computer – a note of caution against excessive mechanization'.

Arrangements for meetings in February, March and April will be announced later this month. Members who have not yet paid their subscriptions of £1 for the session are requested to do so by January 20th.

SOUTHERN SOCIETY'S TAXATION CONFERENCE

Some one hundred and seventy members have registered for the Taxation Conference to be held in Bournemouth by the Southern Society of Chartered Accountants on January 28th and 29th.

The speakers will be Messrs K. S. Carmichael, F.C.A., E. C. Meade, F.C.A., N. E. Mustoe, D. Napper, F.C.A., John E. Talbot, F.C.A., and Professor G. S. A. Wheatcroft, M.A., F.T.I.I., F.B.I.M., J.P., and the topics to be covered will include: distributions, short-fall and surtax directions; corporation tax and close companies; capital gains tax with special reference to goodwill problems of partnerships and sole trading businesses, and to quoted investments; the future of private investment companies or the advisability of liquidating and forming partnerships; treatment of taxation in accounts with particular reference to medium-size and larger companies.

Starting in the spring of 1967, the Society is planning to hold two residential conferences each year.

BIRMINGHAM AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The lecture by Mr K. S. Carmichael, F.C.A., on 'Corporation tax – close companies', will take place on Thursday, January 13th, at 6 p.m. at the Grand Hotel, Birmingham, and not as previously arranged, on January 12th.

INSTITUTE OF INTERNAL AUDITORS

Birmingham Chapter

The next meeting of the Birmingham Chapter of the Institute of Internal Auditors will be held at 6.30 p.m. on Thursday next, January 13th, at the Chartered Auctioneers and Estate Agents Institute, Regent House, St Phillip's Place, Colmore Row, Birmingham, when Mr J. O. Davies, F.C.A., A.C.W.A., Director-at-large of the Institute, will be speaking on 'Management control and the internal auditor'. Anyone who is interested in the activities of the Institute and would care to attend the meeting will be welcome.

The honorary Secretary of the Chapter is Mr T. W. Scriven, West Midlands Gas Board, Wharf Lane, Solihull, Warwickshire.

CHARTERED ACCOUNTANTS' HOCKEY CLUB

Match with Law Society

In a most enjoyable game on the Inland Revenue ground at Grove Park, London, on December 15th, the Chartered Accountants' Hockey Club drew 2–2 with The Law Society.

The forward lines of both sides were strong but the defence generally stood their ground and allowed only two goals on each side to be scored.

THE
ACCOUNTANT
Established 1874

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The Recognized Weekly Journal for the Accountancy Profession throughout the World

ON OTHER PAGES

Land Commission Bill

THE Land Commission Bill, presented to the House of Commons just before Christmas, follows the outline contained in the White Paper, *The Land Commission* (Cmnd 2771), published on September 22nd last. It runs to eighty-eight clauses and eight schedules, and by its complexity and obscurity and the controversial nature of many of its provisions, is likely to prove a worthy rival to the Finance Act, 1965, with which it has ties of relationship.

The proposal to tax land values is no novelty. An Act of 1427 sought to recover increases in the value of property attributable to public expenditure on works for sea defence; and in the reign of Charles II there was a statutory appropriation of part of a landowner's unearned enhancement or 'melioration' assessed upon the benefits of street widening in London. In more recent times there have been attempts to tax development value by Mr LLOYD GEORGE in 1909, Mr SNOWDON in 1931 and Mr SILKIN in 1947.

The Town and Country Planning Act, 1947, vested in the State all development rights in land, so that anyone wishing to develop land had to recover the right to do so by paying a develop-charge of 100 per cent to the Central Land Board. This resulted in the 'landlords' strike' of 1948 to 1952. Doubts arose in practice concerning the validity of the Board's powers to acquire land compulsorily, and these powers had not been used widely when a change of Government abolished development charges in 1953. In 1954 restrictions on private sales of land were removed, so that sales took place at market value, whereas land with development value acquired compulsorily for public purposes fetched lower prices. The Town and Country Planning Act, 1959, restored market value as the basis of compensation for compulsory acquisition, and since that date land prices have risen sharply. This, in turn, has led to a growing feeling among all political parties that capital gains caused by the grant of planning permission should be taxed more heavily than others.

The declared purposes of the White Paper, as reflected in the Bill, are to secure (i) that the right land is available at the right time for the implementation of national, regional and local plans, and (ii) that a substantial part of the development value created by the community returns to the community, and that the burden of the cost of land for essential purposes is reduced. The three instruments of policy for the attainment of these objects are the setting up of a Land Commission, the grant of adequate powers of compulsory acquisition and the creation of a 'betterment levy'.

The Commission are to perform their functions from the first 'appointed day', which is likely to be towards the end of 1966, and are to have a 'Land Acquisition and Management Fund' out of which they will pay the cost of acquiring land and into which they will pay the proceeds of sale of land. Sums collected by the Commission for betterment levy will be paid direct into the Exchequer. The Commission will be able to acquire by agreement land which in their opinion is suitable for development, and may also be authorized to acquire such land compulsorily if there is planning permission for its development, or it is designated in the development plan for compulsory purchase or in certain other instances.

The Commission may themselves apply for planning permission, but until a second 'appointed day' their powers of compulsory acquisition are limited to particular purposes.

An unsatisfactory feature of the Bill is the adoption of a recommendation of the Expert Committee on Compensation and Betterment (the Uthwatt Committee) (1942, Cmd 6386) whereby, in certain cases, the hearing of, or a public local inquiry into, objections to compulsory purchase may be dispensed with unless the Minister concerned decides otherwise. Another such feature is the number of matters which are left to be dealt with by regulation.

Betterment levy will be chargeable when development value is realized by transactions in land and also, to the extent that development value has not been already realized, when a 'material development' is carried out, which means development other than certain excluded classes of development. Thus, if agricultural land worth £300 is sold for £3,000 with the benefit of planning permission, the levy will apply to the difference of £2,700; but if the market value of the land has risen to £4,000 by the time it is developed, another £1,000 will be chargeable. The rate of levy will start at 40 per cent and will rise at short intervals to 45 per cent and then to 50 per cent and possibly more. In this way it is hoped to leave landowners with sufficient incentive to sell, and to sell quickly before the rate of levy rises. The Commission, when buying land, will collect the levy by deducting it from the price they pay, so that the net payment to the owner will in effect be the current use value of the land plus a part of its development value. Subject to this, the market value basis of compensation for compulsory purchase at present in existence will continue unchanged for the Commission as well as for other public authorities.

The three big questions which emerge are: will the new proposals succeed where others have failed?; is it really necessary to set up such a grandiose public authority for the collection of what is, in effect, capital gains tax under another name?; and, will the proposals have any real effect in bringing down the cost of building land?

Only time will answer the first question. As to the second, the intention of the Bill (subject to further clarification in the next Finance Bill) is that development value will be excluded from capital gains for purposes of the long-term gains tax and corporation tax, but not for purposes of the short-term tax. The White Paper states that the rate of betterment levy can 'thus' be determined independently in the light of the requirements of land for development and the need to recover betterment for the community. But is there any real reason why the levy should not be assessed and collected by the Inland Revenue like capital gains tax, particularly as there is a precedent in the Finance Act, 1965, for differential rates of tax as between individuals and companies, and between investment companies and other companies? Again, when 1,500 local authorities have extensive powers of compulsory purchase, is it necessary to clothe another public authority with similar, if slightly extended, powers?

Could not the local authorities be given the extended powers? Indeed, there is an expressed intention in the White Paper to do so at a later date.

A major consideration is the probable effect of betterment levy on land prices. The Bill precludes the Commission, subject to any general directions from a Minister and to certain provisions relating to 'crownhold' dispositions and 'concessionary crownhold dispositions', from disposing of land acquired by them otherwise than at market price, which seems scarcely calculated to bring down the cost of land to private builders or the cost of houses to prospective buyers of freehold houses. The market prices at which the Commission will buy land may be expected to accelerate rather than decelerate the rising trend which has caused the trouble, both because of the presence of a large buyer in the market and because sellers will seek to add to the price some part of the levy which they have to pay. Small hope, then, that the Commission's selling prices will not be higher than land prices today.

Crownhold tenure comes at a time when the Law Commission is endeavouring to simplify the law, and The Law Society is trying to reduce conveyancing charges. Schemes for concessionary crownhold dispositions will apparently be controlled by local authorities, housing associations and co-operative groups; while local authorities will be the financial beneficiaries from the Commission's operations. For the rest, the Bill will curb public criticism of speculative land profits and create a monopoly of land with development value. What else will it do?

CAPITAL GAINS TAX

Trust Property – II

IT is, of course, a commonplace of capital gains tax that an out-and-out gift may involve the donor in liability, since he is deemed to receive a price equal to the market value of the asset. Suppose that instead of making an outright gift he creates a trust of the property which is revocable, or which includes himself as a beneficiary, or both. In relation to stamp duty on voluntary dispositions, the fact that the gift is revocable or that the donor retains an interest, greatly reduces the *ad valorem* stamp duty. This is not so in the case of capital gains tax (section 25 (2)). A person who made a revocable settlement of property and revoked it the next day would still have to pay the appropriate tax. If he did not, the Inland Revenue would be able to recover it from the unfortunate donee (Schedule 7, paragraph 19), leaving him to recover the tax from the donor by action. Needless to say, a person who settles property does not avoid tax by making himself the sole trustee (section 25 (2)).

We come now to cases where the fact of property being 'settled property' can give rise to notional disposals which attract real tax. Suppose that a beneficiary becomes absolutely entitled, as against the trustee, to any settled property by reason of some event such as the termination of the interest of the life-tenant or an appointment in his favour. This event could be either contrived or involuntary. When it happens, the assets to which the beneficiary becomes entitled are deemed to have been disposed of by the trustee, and immediately acquired by him in his capacity as bare trustee, for a consideration equal to their market value. It follows that the trustee must pay any capital gains tax incurred on such a disposal (section 25 (3)).

In view of the wording of section 22 (5), it would seem that an infant or other person under a disability who became entitled subject to such disability would not be 'absolutely entitled' within the meaning of section 25 (3), until he became of age or the disability otherwise ceased.

We have instanced as being within section 25 (3) the termination of a life interest as marking the point where a beneficiary becomes absolutely entitled, so as to involve the trustee in liability. But a life interest can terminate without anyone becoming absolutely entitled, not merely where the beneficiary is an infant but also where other trusts take over, as where a new life-tenant takes the income. Section 25 (4) directs that where the life interest is 'in possession' and terminates, the property in which the life interest existed is to be deemed to be disposed of and immediately reacquired by the trustee at market value.

'Life interest' is extensively defined in section 25 (10), as follows:

(*a*) It includes a right under the settlement to (1) the income; or (2) use; or (3) occupation of settled property for any period which may terminate before all the settled property becomes property to which some person is absolutely entitled against the trustee.

(*b*) It does not include any right which is contingent on the exercise of the discretion of some person (including presumably the beneficiary himself).

(*c*) It does not include an annuity, secured or otherwise.

A life interest is not in any case caught by section 25 (4) unless it is 'in possession'. This is not defined but the phrase was added in committee ostensibly to exclude 'reversionary or contingent interests'[1].

What amounts to 'the termination' of a life interest? On this the Act is strangely silent but some help can be obtained from a study of estate duty cases dealing with section 2 (1) (*b*) of the Finance Act, 1894 ('cesser'), or with section 43 of the Finance Act, 1940 (life interest 'determined'). Of particular interest in this connection are the House of Lords decisions in *Ralli Bros v. C.I.R.* and *Lyle's Trustee v. C.I.R.* which we reported in a weekly note in our issue of December 25th last. Reference can also be made to some observations of Pennycuick, J. in *Re Holmden's Settlement Trusts* [1965] 1 All E.R. 744 at page 749. Wherever it is sought to obtain a variation of a trust in order to obtain some future estate duty advantage it is well to consider whether or not the proposed scheme will amount to the termination of a life interest, for this may precipitate a deemed disposal for section 25 (4) purposes. Even if this does not produce a substantial

[1] *Hansard.* (H. of C. Report), May 26th, 1965, col. 711.

capital gains tax liability, it will involve the trustees in tedious and abstruse calculations and valuations in order to decide whether or not there is some capital gain which they will have to disclose to the Inland Revenue.

Section 25 (4) does not apply to assets which on the termination cease to be settled property, as where the life-tenant dies and the remainderman becomes absolutely entitled against the trustee. Those particular assets are of course caught by section 25 (3). The operation of section 25 (4) can be particularly harsh where a fund is held on trust to pay parts of the income to different life-tenants. In the ordinary way the termination of any one of the life interests will cause the whole fund to be deemed to be sold at market price. It was feared at first, on this account, that if trustees made a small advancement of capital this would automatically terminate a life interest and cause the whole fund to be deemed to be sold at market price. However, the House of Commons was assured that this was not so[2]. The MINISTER giving this assurance said that the tax arose only 'on the death of a tenant for life or some extended period' which is certainly too narrow a construction.

Where there are two or more life-tenants but the interest of each is confined to a specific part of the fund, then section 26 (12) provides that the part of the settled property in which the life interest subsists shall, while it subsists, be treated for section 25 (4) purposes as settled property under a separate settlement. Wherever new settlements are being drawn, or old settlements varied, and there is more than one life-tenant, then it is important to see, where possible that advantage is taken of section 26 (12).

Further relief is provided by section 25 (6) where there is a quick succession of life-tenants. It says that if section 25 (4) is applied 'in relation to a settlement' [*sic*] the interval between that occasion and the next occasion on which it is applied shall not be less than fifteen years. However, when the settlement has had one bite as it were under section 25 (6), then section 25 (4) must operate at the end of the fifteen years as though a life interest in possession had terminated then.

The popularity, in relation to estate duty, of discretionary settlements designed to last for a long period, has meant that there must be many settlements in existence where there is no life interest in possession, as defined in section 25, and therefore liability under section 25 (6) cannot arise; hence section 25 (7). This applies 'if, during the subsistence of a settlement (undefined) there is a period of more than fifteen years throughout which there is no life interest in possession'.

The subsection does not apply to settled property satisfying all the following requirements:

(1) the property and the income is primarily applicable for educational, cultural or recreational purposes.

(2) the persons benefiting from that application are confined to members of an association for whose benefit the property was settled.

(3) most of the persons within (2) are not 'connected persons' within paragraph 21 of Schedule 7.

If section 25 (7) does apply, then at the end of the first fifteen years of the above period, and of each succeeding fifteen years, section 25 (4) (6) are to apply as though a life interest in possession in the settled property had then terminated. In the original Bill the period was ten years only and attempts were made to increase it considerably. The fifteen years finally settled on is in the nature of a compromise.

From what date is one to measure the fifteen years? For a settlement created after April 6th, 1965, and having initially no life-tenant, one must measure from the date of such creation. If a life-tenant dies and a discretionary trust follows, then the fifteen years is measured from that death. If the settlement was created on or after April 6th, 1950, any period before April 6th, 1965, is to be taken into account in the same way as if it was after that date. Thus a discretionary settlement created on June 30th, 1952, would attract capital gains tax on a notional disposal on June 30th, 1967, but of course only on the increase in value in the period of two years and three months.

If the discretionary settlement was created before April 6th, 1950, one marks the time from the fifteenth anniversary of the date of creation, which falls into the fifteen years ended on April 5th, 1965. Thus if a settlement was created on October 5th, 1894, there would be a fifteen-year anniversary (the fourth) falling on October 5th, 1954. Measuring fifteen years from that, one reaches October 5th, 1969, as being the first date of notional disposal. Consequently the trustees would be required to pay capital gains tax on the notional gain over the four and a half years ending on that date (section 25 (13)). The idea behind these provisions is to spread the work of computation, so as to avoid the situation where the property of every settlement in the country was all being valued at the same time.

There is an overriding provision in section 26 (13) that section 26 (4) (taken together with section 26 (7)) is not to be applied on a date falling before April 7th, 1967. Whether these provisions are enough to make section 26 (4) (7) workable in practice remains to be seen. (*To be continued.*)

[2] *Hansard*. (H. of C. Report), May 26th, 1965, col. 702.

Current Affairs

Institute Statements

THE report of this month's meeting of the Council of The Institute of Chartered Accountants in England and Wales, on other pages of this issue, will doubtless be read with considerable interest by members and others. First, a revised statement on 'Clients' Moneys held by Practising Members' appears as a replacement of that issued in April 1958. The new statement is made in the light of the restatement of the principle of law in *Brown v. C.I.R.* that any person in a fiduciary relationship with a client must not take any financial benefit not authorized by law, contract or trust deed. Specific recommendations are made regarding the opening and identification of 'client' and 'trust' bank accounts, the apportionment of interest, etc.

Another statement relates to the accountancy implications of the Redundancy Payments Act which came into force on December 6th, 1965. The Council does not consider it necessary, as a general rule, to make provision in accounts for potential liabilities under the Act unless events have occurred, or decisions have been taken, which are expected to lead to redundancy payments.

A further statement concerns the sponsoring of a new research fellowship by the Institute, in conjunction with the Department of Education and Science. The object is to examine the content and teaching methods for courses aiming to give an understanding of the principles and use of accounting in modern business but which are not designed for the specialist accountant. The research fellow will work under the guidance of a steering committee of five at the temporary offices of the Institute.

A notice in our last issue inviting applications for the appointment stated that the fellowship will be for one year only and the salary will be up to £2,500. The successful applicant will probably be a qualified accountant and preferably a graduate with previous teaching and research experience. Application forms (returnable not later than February 14th) are obtainable from the Secretary of the Institute, 56–66 Goswell Road, London EC1.

J.Dip.M.A. Progress Report

RESPONSE to the launching of the Joint Diploma in Management Accounting Services has been encouraging. Already well over five hundred inquiries have been received about the Part I examination, as well as over a hundred applications for exemption from the Part I examination under the transitional arrangements for the 'over forties'.

Interviewing panels are to start examining the first candidates for the Part II examination in London this month, and in the provinces during February. The first Part I examination is to be held from June 14th to 16th next. The closing dates for submitting applications are: Forms 1 and 2 (personal particulars and details of experience since qualifying), April 1st; Form 3 (application to sit the examination, after approval by the Joint Board of candidate's experience as shown in Form 2), April 29th. Forms are available from the Board's offices at Swan Chambers, Great Swan Alley, London EC2.

New I.C.W.A. Education Standards

NEW minimum general education requirements for students seeking registration have been announced by The Institute of Cost and Works Accountants. In place of the former requirement of five 'O' level passes for applicants under 21, including mathematics and English language or literature, and 'O' level passes only in mathematics and English for students between 21 and 30, the revised regulations, which are effective from September 1st, 1966, specify one 'O' level and two 'A' level passes, or three 'O' level and one 'A' level, or five 'O' level. Passes in all cases must include mathematics and English language, and English literature is no longer acceptable as an alternative to the latter subject. Candidates over the age of 30 may be accepted without G.C.E. passes if they have outstanding non-academic qualifications such as wide practical experience.

The new I.C.W.A. regulations come at a time when there are signs of a gathering momentum in the movement of professional opinion towards the view that accountancy education and training must undergo some fundamental changes within the next few years. In an article elsewhere in this issue entitled 'Preparing for the profession', Professor H. C. Edey, B.COM., F.C.A., takes a critical look at the present educational structure and examination syllabuses of some of the principal professional bodies and gives

his personal forecast of the sort of developments we are likely to see in the future.

Many readers will share his regret that compared with the other major professions, accountancy is sadly lacking in its concern for the wider political, economic and administrative environment in which perforce it has to conduct its affairs. In its overriding anxiety to produce competent accounting technicians it is in danger of losing sight of the equally important requirement to attract and train the sort of man who will combine his skill in applying professional techniques, both old and new, with a broader understanding of the events and trends of thought which shape the profession's role as a significant element in the country's economic life. Heeding his own advice that accountants should be more critical of received authority, Professor Edey expresses his doubts as to whether the present pattern of training fits the average qualified man to understand enough of the market forces which determine security prices to be in a position, even after experience, to give businesses seeking finance adequate advice on the uncertainties that lie before them.

The profession seems to be in a mood that makes it receptive to criticism and discussion of these fundamental issues and we hope that more of its members will be encouraged to express their views on the course that must be set over the coming decade.

Tax Convention with United States

THE terms of the Protocol recently agreed in principle between representatives of the United Kingdom and the United States for the amendment of the double tax convention have a special significance as a pointer towards the pattern of other agreements due for renegotiation. The Finance Act, 1965, was notable for ending the freedom from withholding tax long enjoyed by shareholders in United Kingdom companies. Previously the United States rate had been restricted to 15 per cent while the United Kingdom granted exemption from surtax. This inequality has been ironed out by the abolition of underlying tax relief and the adoption of 15 per cent as the standard rate of withholding tax on dividends flowing between the two countries, retrospective in some aspects to January 1st, 1966.

However, it seems over-optimistic to assume that this choice reflects the lead given by Article XX of the model convention sponsored by the former Organization for European Economic Co-operation (O.E.E.C.). Thus, the Fourth Report issued in 1961 favoured a reduction to 5 per cent for companies with substantial investment interests but this facet of the 1946 agreement has been allowed to lapse subject to underlying tax relief for 10 per cent corporate holdings and it seems that the Chancellor is determined not to concede an abatement of the new British withholding rate of 41·25 per cent below that effective in the recipient country.

Other features of the Protocol are more closely related to the Anglo-American scene. A technical change enables exemption from tax on interest and royalties to be obtained by charities and others not 'liable' for tax, while interest paid to United States parent companies will rank as a deduction for corporation tax. It will be recalled that this provision is necessary to nullify the combined effect of paragraphs 1 (1) (d) (iv) and 7 (1) of the Eleventh Schedule, and it may be asked whether it would not be more sensible to exempt all such interest up to a maximum of, say, 10 per cent as contemplated by the O.E.E.C. model.

Another oddity concerns the selective identification of American stock exchanges 'recognized' for close company purposes (paragraph 1 (3) of Schedule 18) but not for market values (paragraph 22 (1) (a) of Schedule 6). It is interesting to note that the Protocol will have retrospective effect for both capital gains tax and corporation tax.

Quiz for Directors

OPINION polls have familiarized the public with the technique of sample surveys, although relatively few people are aware of the value of such surveys as a means of collecting information. The sample survey covering approximately one in eight of the 42,000 members of the Institute of Directors is likely to produce some especially interesting information of value to sociologists, quite apart from industry.

The questionnaire comprises a small booklet of sixteen pages, the 207 questions being divided up under a number of headings. Among these eighteen headings are topics such as education, father's background, the mode of travelling to work and details of leisure activity. The questions are of the multiple-choice or cafeteria type with pre-coded answers; free-answer questions are few and far between. The survey asks the right question as to church-visiting and it will be interesting to learn the respondents' views on marriage!

It will be interesting, too, to see whether the Institute is successful in persuading the sample members to reply to all the questions in the schedule, some of which relate to personal matters such as income and drinking habits (which tend to be overstated in most surveys). By January 7th, 1,600 forms had been returned, an initial response of 30 per cent which is quite good. Some follow-up may be needed if the overall response is to exceed the 66 per cent response achieved in an earlier but unambitious sample survey held in 1957.

The material collected from the random sample of respondents will be processed by computer.

Datafair 1966

A HIGHLY successful and well-attended Datafair – another new word likely to become familiar in business terminology – was held by The British Computer Society last week at Imperial College, London.

During the five days of the exhibition, various presentations of computer applications on such aspects as 'commercial real time systems', 'multi-access time-sharing', 'factory data collection systems' and 'real time in the control of industrial processes' were organized by the leading computer manufacturers. There was also a symposium arranged by the Computer Society at which the speakers included Professor S. Gill, Mr F. Clive de Paula, F.C.A., Mr Basil de Ferranti and Professor M. V. Wilkes. At the session on systems principles, applications and design, the chair was taken by Mr Dudley Hooper, M.A., F.C.A., Technical Officer of The Institute of Chartered Accountants in England and Wales, and a Past-President of the Computer Society.

Basis for an Incomes Policy

THERE is increasing concern with the evident lack of progress in the Government's efforts to evolve a successful incomes policy. As in the past, despite pleas for co-operation and exhortations to restraint, incomes are still rising more rapidly than production. The fulfilment of the National Plan depends entirely upon the operation of an effective incomes policy, the absence of which, as Professor Paish points out in the new edition of Hobart Paper 29, *A Policy for Incomes* (Institute of Economic Affairs, 6*s* net), means that another phase of over-expansion in the U.K. economy can only lead the country into a crisis still more severe than any yet experienced.

The events of the past fifteen months have done nothing to persuade Professor Paish that his basic thesis of a direct relationship between money incomes and the level of employment is wrong. As long as employment is over 97½ per cent, it is inevitable that incomes will increase more rapidly than production. In such conditions the policy will be unworkable; equally if unemployment is over 2½ per cent, conditions in the labour market will make an incomes policy unnecessary. The only matter for surprise, notes Professor Paish, is the lack of success that the present Government has had in persuading the unions to meet the national needs.

Mr Jossleyn Hennessy contributes to the same Paper a depressing postcript on recent European experience. He cites the outcome of the Dutch experiment to regulate incomes which was much more comprehensive and better thought out than the methods used elsewhere. Despite a general awareness of the need for an incomes policy, the Dutch experiment has apparently failed. He also draws attention to the disastrous results of the Dutch Government's efforts to freeze selected prices as part of the anti-inflationary policy – a matter of which Mr Brown and his colleagues might well take note.

Yet further comment is provided by Mr Henry Smith, Vice-Principal of Ruskin College, an experienced wage arbitrator who reviews a variety of problems posed by an incomes policy in the current issue of *Lloyds Bank Review*. He stresses that the basis for the majority of wage claims, which all trade union officials seek to support, is the rise in the cost of living.

But, as the author observes, if compensatory wage increases are granted with every rise in prices, then the inflation will never come to an end. Mr Smith does not support the use of monetary and fiscal weapons to offset the consequences of wage inflation on the grounds that they impose major disadvantages, such as a slowing down in the rate of growth. For him the ideal solution lies in allowing the price mechanism as much freedom as possible, 'while creating an atmosphere which induces the maximum restraint on the use of strategic power capable of pushing up money, wages and increasing prices'.

More about Expenses

SUBSECTION 2 of section 15 of the Finance Act, 1965, makes it clear that the edict on business entertainment expenses has brought about no change in the position as regards the provision for an overseas customer of a United Kingdom trader of entertainment of a kind and on a scale which is reasonable having regard to all the circumstances. The latter requirement reflects Revenue anxiety at their former inability to challenge the taxpayer's view of the degree of lavishness appropriate. This question was discussed by the Parliamentary Estimates Committee (Seventh Report, 1960–61) when a Revenue witness expressed the view that discretionary powers would make the position of an Inspector of Taxes very difficult, having regard to the fact that it was impracticable to relate expenditure to turnover and that, where activity was being built up, extra expenditure would quite obviously be justifiable (Minutes of Evidence: paragraphs 1406 to 1416).

The reasonableness of the kind of entertaining and the scale of expenditure still has to be considered in relation to overseas customers, and the Institute of Directors (reports *The Director* for January) has been making inquiries as to the form of the 'particulars' which the inspector is entitled to require in support of claims. The official response was directed to the twin criteria of the qualifications of the customer and the appropriateness of the occasion.

It seems that when the introductions are made it may be timely to ensure that not only the guest's name and address are known but also those of the principal for whom he acts; but is it safe to wait until the port is passed before checking up on the nature of his trade or that of his principal, laughing aside the gaffe if the latter turns out to be a Government or public authority? (A reference book should be kept up one's sleeve to verify credentials before calling for brandy and cigars). The host should now glance around the table and note the names of all present and when

he signs the bill he would do well to add a précis of the circumstances which led to the occasion. However, all may be in vain if when making his farewell he learns that the guest or his principal has a permanent United Kingdom address.

A further difficulty in relation to disallowable entertaining arises from the Revenue interpretation of subsection 3 where round sum allowances which include such items as the cost of travel fail to qualify as 'exclusively' applicable to entertaining and, unless existing arrangements are revised, many executives may find that they have to bear the burden of the disallowance personally. This is one of the matters to be raised by the Institute of Directors at a meeting which they have proposed with the Board of Inland Revenue, but in the last resort much will depend on the willingness of tax inspectors to ensure that their inquiries are as reasonable as the entertainment.

This is My Life

by An Industrious Accountant

ONE seems to have a lot of difficulty with this business of staff rotation nowadays. Time was when things were much simpler and easier. Now you pretty well need summit conferences of the major powers, with typed reports in sextuplicate circulated twenty-one days beforehand.

I firmly believe in the merit of the theory that staff should be exposed to the rigours of rotational training from their junior days. What's the point of training a bright and eager subordinate to handle, say, the approval – properly authorized and after appropriate scrutiny – of the masses of purchase invoices passing through the office, and then leaving him to warm the chair at the same desk for the next forty years. That's a disgraceful waste of talent as well as a breaker of spirits.

Accordingly I aim to ensure that after some five or six years (that is, about eighteen months in each section) all aspiring accountants on our staff should have covered each aspect of the overall job. If he starts in accounts payable, he can expect to rotate via cashier to payroll and cost accounts; the assistant registrar will roam the thorny paths of internal audit, by way of insurances; the raw youth who fumbles with the departmental sales invoices will graduate to punched cards and emerge with more than passing knowledge on both E.D.P. and gross profit tabulations. If any of them elects to leave our company for another service, he can count on being as widely experienced as is humanly possible in the time he's given us.

Of course, the real interest lies in watching a man's personality develop. Will he stand up to an overbearing sales manager without precipitating a battle royal? Can he appease an indignant customer and send her away purring with satisfaction? If he can combine ability, tact, hard work and popularity with integrity, he'll be promoted for sure – provided he hasn't collapsed from overwork, nervous prostration or ulcers.

Anyhow, every year or so I used to run over the list of junior-level names with the appropriate supervisor. 'There's Joe in "fixed assets" these eighteen months', we'd brood. 'Let's shift him to "repairs and maintenance costs" for a change. Check first that he's got no objection naturally.' Of course, he'd no objection at all. Cheerfully co-operative, relying on our judgement in his own best interests, he'd chat enthusiastically about his improved prospects and fall on his new duties with alacrity.

But the picture has changed, indeed, it has deteriorated sadly these days. Now the supervisors tend to look askance at the projected moves. 'Joe's doing fine where he is.' 'He knows the job inside out by now; we'll have endless trouble breaking in a newcomer; efficiency is bound to suffer.' What they really mean is that they are reluctant to undertake the additional work that will fall on their shoulders. Instead of delegating all the routine chores to Joe, which time they saunter out for a chat with their opposite numbers, they have to plan and oversee a training programme for a new subordinate. To my comment that Joe's widened horizon mustn't be jeopardized for the sake of some short-term inconvenience, they are wont to mutter the old proverb about the road to hell being paved with good intentions.

Then Prinny, our personnel director, gets into the act. His permission doesn't actually have to be sought for changed assignments, but he wants to be kept advised of all such moves. This gives him the excuse for dropping in to discuss things. 'Of course, I don't want to interfere in any way, old chap,' he begins jovially, and follows up with a string of why's, and how long's, and when was the last change. Then he produces his organization chart, inserts arrows in red ink, and asks for a detailed report in six months.

Finally, Joe himself reacts with apprehension and hostility, clearly seeing the move as a prelude to the sack, and wants a guarantee of promotion to compensate him for disturbance and reorientation, plus an immediate increment and a letter to confirm that the change casts no aspersion on him. You just can't win.

BONOCHORD LTD

'Proper Books' Not Kept

AN early repetition of anything akin to the recent Cooper Brothers & Co's report to British Printing Corporation shareholders was hardly to be expected, but it has fallen to Aveyard, Miller & Co, Chartered Accountants, the auditors of Bonochord Ltd, to make a report to that company's members in possibly even more striking terms.

In the Bonochord case not only were the books not properly kept, but it seems that proper books were not kept. The lack of journals in a generally accepted form and inadequate accounting records giving rise to an inaccurate inter-company and group profit position, are referred to in the audit report which, in its entirety, runs as follows:

Report of the Auditors to the Members

We report to the members of Bonochord Ltd that we have been unable to obtain all the information and explanations which were necessary for the purpose of our audit due to the fact that the original accounting staff of the parent company were not available for questioning on various matters. In our opinion proper books of account were not kept by the company. Journals in a generally accepted form have not been kept and because of inadequate accounting methods substantial credits with subsidiaries had not been properly entered in the books giving rise to an inaccurate inter-company and group profit position. Overheads were in the main paid for by one of the subsidiary companies and not re-allocated to the relevant company. These two matters have been corrected in these accounts.

The shares in the original Ordione group of subsidiary companies are entered in the balance sheet of the company at a figure considerably in excess of the net tangible assets shown by the balance sheets of these companies and in the two years since the Ordione group has been a part of Bonochord Ltd, the profits less losses which have been earned by them have shown a very small yield in relation to the book value of the shares. For this reason, in our opinion, the aggregate value of the shares in subsidiary companies is, under present conditions, less than the figure of £295,000 at which they appear in the balance sheet of the company and the item of goodwill £150,000 relating to the subsidiary companies which appears in the consolidated balance sheet is not of that value.

Subject to these remarks, in our opinion and to the best of our information the said accounts give the information required by the Companies Act, 1948, in the manner so required and the balance sheet gives a true and fair view of the state of the company's affairs as at 30th June, 1965, and the profit and loss account gives a true and fair view of the loss for the period ended on that date.

We have examined the annexed consolidated balance sheet and consolidated profit and loss accounts of the company and its subsidiaries dealt with thereby with the audited accounts of those companies, one of which has not been audited by us. We have been unable to obtain all the information and explanations which were necessary for the purpose of our audit due to the fact that the original accounting staff of the parent company were not available for questioning on various matters.

Subject to the foregoing, in our opinion such consolidated balance sheet and consolidated profit and loss account have been properly prepared in accordance with the provisions of the Companies Act, 1948, so as to give a true and fair view respectively of the state of affairs and of the profit of Bonochord Ltd and its subsidiaries dealt with thereby so far as concerns members of Bonochord Ltd.

Westminster Bank Chambers, 1393 London Road, Norbury, SW16.
31st December, 1965.

Aveyard, Miller & Co,
Chartered Accountants.

The background to the affair needs to be put in some detail. The present chairman, Mr Stanley Ingram, first came on the scene last March when Bonochord took over the Ingram group of companies through an issue of Bonochord shares. Bonochord manufactures hearing aids and allied equipment and the Ingram group is largely a retailer and distributor in that sphere.

Forecast

At the time of this operation, Ingram's forecast profits of not less than £35,000 for the year to March 31st, 1965, and profits of the enlarged group for the year to the following June were forecast at not less than £30,000 before tax, allowing for the inclusion of only three months' profit from Ingrams. In the following August, when Bonochord shares fell sharply on the stock-market, following the failure of the stockbroking firm of Tingey, Baskett & Co, the then chairman of the company, Mr Mortimer Silverman, expressed 'every confidence' that the forecast of profits would be met.

Before the end of the financial year, Mr Ingram joined the Bonochord board, together with Mr E. F. Uden. Mr Rudolph Camrass and Mr G. K. Farmer, who was also secretary, resigned as directors. Members of the accounting staff also left the company. Since June 30th, 1965, Mr Silverman has resigned and so have three other directors, Mr N. Winston, Mr R. Winston and Mr A. G. R. Mackie. On November 5th, Mr Ingram became chairman, and then Mr J. B. Flood joined him, with Mr Uden, to make up a three-man board.

Their first action was to state that the company would not be able to realize the forecast of £30,000 of pre-tax profits and that a final dividend was unlikely. A reorganization of Bonochord's affairs, it was stated, was already well advanced and the Ingram results were fully up to expectations. The accounts, in fact, show a Bonochord profit of only £529, against £29,813. Ingram's profits for three months were £8,277.

Lack of information

The profit position is analysed in an appendix to the accounts in which reference is made to a drop of 19 per cent in retail sales by the original Bonochord group, a 6·2 per cent reduction in the rate of gross profit (representing a reduction of £18,073) and an increase of 1·7 per cent in the percentage of general overheads to sales, which represents £5,172 in profit terms.

Besides low turnover and reduced profit margins, con-

tributory factors to the poor results, says Mr Ingram in his review, were the import duty surcharge, a number of non-recurring charges, including a higher than normal bad debt figure of £7,871, due to two debtors going into liquidation, professional charges and patent right infringement costs of £1,519 and a writing-down of obsolete stocks and spare parts by £8,313. But 'the lack of accurate financial information in the Bonochord Group' was an overriding cause.

Mr Ingram assures shareholders that the necessary action has been taken to provide 'a flow of accurate and up-to-date financial information' on lines which have always been available to him in his own group. Assets have been revalued showing a surplus on properties but a deficit on equipment, fixtures and fittings. The goodwill item is reduced by £130,191 from capital reserves, but at £150,000 is still questioned by the auditors as is the value of the Ordione Group, written down by £35,000.

Mr Ingram admits that he cannot accurately forecast current-year results, but he is certain that by the end of the financial year the group will be on a sounder and more profitable basis. He promises a report by March on the six months to December 31st last, and full accounts for the year to next June will be in shareholders' hands not later than September.

Taxation Cases

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'.

Johns v. Wirsal Securities Ltd

Chancery Division – November 26th, 1965
(Before Mr Justice PENNYCUICK)

Income tax – Loss claim – Forward dividend-stripping – Trade of dealing in securities – Purchase of shares at high price – Dividend thereon – Shares virtually written off – Dividend distributed absorbing whole profit – Whether relief claim sustainable – Income Tax Act, 1952, sections 184, 185, 186, 199, 341.

At the beginning of 1959 the respondent company (Wirsal) was incorporated to carry on the business of a dealer in stocks and shares. On the same day another company (Nadvet) was incorporated, and both Wirsal and Nadvet were subsidiaries of a third company (Kernbrook). During its first accounting period, ended April 7th, 1960, Wirsal engaged in some artificial transactions with associated companies, and made a profit of £100, and also purchased stock exchange securities for £8,025, and sold them for £7,974 resulting in a loss of £51. Three days before the end of the accounting period Wirsal agreed to buy the four issued shares in Nadvet for £79,000 a share, the vendors guaranteeing that, before March 31st, 1963, Wirsal would receive not less than £158,000 from the purchase.

Nadvet's first accounting period ended on the same day, and Nadvet then had assets standing in its accounts at about £101,000. During its next accounting period Nadvet sold some of its assets, partly to outside purchasers and partly to Wirsal, and made a profit of £280,199 available for distribution. On April 5th, 1961, the directors of Nadvet decided to pay two interim dividends, one of £110,000 and the other of £4,050; and on the same day the secretary of Nadvet sent to Wirsal six letters showing in the aggregate gross dividends, £456,200, less tax, £176,778, net dividends, £279,422. On April 7th, 1961, Wirsal wrote down its four shares in Nadvet to £1, and thus made a loss of £315,999. In its following accounting period Wirsal engaged in property-dealing activities which – admittedly – constituted a trade.

Wirsal claimed repayment, under section 341 of the Income Tax Act, 1952, of the tax deducted from the Nadvet dividends. The trading loss of Wirsal was £312,734, and it claimed to have £121,184 8*s* 6*d*, being tax at 7*s* 9*d* in the £ on the £312,734 repaid to it.

It was contended for Wirsal that in the year ended April 5th, 1961, it had carried on a trade of dealing in stocks, shares and real estate; that it had incurred a loss of £312,734 in that trade; and that a certificate under section 341 should be given authorizing repayment of £121,184 8*s* 6*d*. It was contended for the Revenue that Wirsal's transactions during the year were not genuine trading transactions, but were planned to create a loss; alternatively, that if Wirsal was carrying on a trade, the Nadvet shares were not trading stock, and the amount written off those shares was not an expense of the trade; and that Wirsal was not entitled to relief under section 341.

The Special Commissioners decided (i) that Wirsal was carrying on a dealing trade in the year in question, (ii) that the Nadvet shares were trading stock, (iii) that the writing-down of those shares was justified, (iv) that tax could be deducted by Nadvet only from a dividend of £280,199, being the total profit of Nadvet in the period to April 7th, 1961, so that the amount of tax ranking for relief was £108,577 2*s* 3*d*, leaving £171,621 17*s* 9*d* net, (v) that the second dividend was not a part of Wirsal's receipts, (vi) that the £171,621 17*s* 9*d* should be included in Wirsal's tax computation, (vii) that the loss ranking for relief was £206,398.

Held: (1) Wirsal was carrying on a trade of dealing in securities in the year in question, (2) that as the actual sum paid in dividend by Nadvet was £279,422, and as this sum exhausted the distributable profit of the period to April 7th, 1961, no tax could have been deducted from it, (3) the claim to repayment failed.

Exports and Overspill

by W. SPRUCE, F.C.A.

THERE is a universal law which requires that everything received shall be earned or paid for in some shape or form. It applies both to individuals and individual countries. It is the law accountants exemplify whenever they insist on a debit for every credit. It is immutable and inescapable.

The United Kingdom is particularly vulnerable to the requirements of this law. As a densely populated and highly industrialized country, Britain is compelled to import a vast quantity and variety of goods to maintain a reasonable standard of living for her people. The law requires that these imports shall be earned or paid for, and this can only be done by exporting U.K. goods or services. If Britain cannot pay for her imports with her earnings of foreign currencies from exports, she must borrow from others sufficient foreign currency to tide her over a difficult period, or lose her ability to continue trading with other countries, experiencing all the resultant penalties which would devolve on her people from a lowered standard of life.

Former premier position

In the late eighteenth and during the whole of the nineteenth century, Great Britain pioneered the industrial revolution, gained supremacy in sea transport, and immense advantages accrued from her premier position in world trade. These enabled her to meet her growing import commitments with ease. A sufficiency of exports was almost automatically assured. In the first quarter of this century, despite increasing competition for world trade, Britain's invisible exports derived from earlier investment overseas, enabled her to continue paying her way and these were no doubt a factor contributing to the casual disregard throughout the country of the increasing need for real exports. A favourable balance of payments was accepted as incidental to superiority in the fields of industry and commerce, and the portents of change in the economics of world trade and the U.K.'s position therein were insufficient to cause apprehension. The old-established pattern of international commerce and finance continued to be regarded as immutable as the law under which they operated.

The two world wars of this present century, in so far as they were the result of economic inequalities, were in reality one war with a twenty years' interregnum of which little use was made. After the Second World War, however, the United Kingdom in particular was compelled to take notice of the change in world conditions. This wind of change with dramatic force literally blew her out of a nostalgic and soporific dreaming of empire to realize that other nations were emerging by leaps and bounds; and those with vision realized that Britain was now in truth, if not in fact, a member nation of 'one world'. The fat heritage bequeathed by industrious ancestors was gone. Austere measures to help the economy adapt itself to the new environment were at first accepted with enthusiasm, but soon dismantled. Living in a world where accumulated shortages and growing demand gave rise to the conditions of a sellers' market, the people made bonfires of controls designed to restrict home demand and gave themselves up to the allurements of *laissez-faire* and the affluence which seemed to so miraculously arise therefrom. The slogan of 'Export or die' of the nineteen-forties became the 'You've never had it so good' of the nineteen-fifties. Premonitory rumblings of balance of payments crises were partially and temporarily smothered by successive deflationary measures, followed by inflationary measures when stagnation appeared to be imminent.

Stark necessity

There may be some in the U.K. who will disagree with this interpretation of events, but it cannot be disputed that 'Export or die' has once again become a stark necessity – only temporarily saved by those responsible for the financing of international trade and a world generally unwilling to enforce conditions which would unavoidably lead to the demise of a great trading nation. Cosseted in the illusion of apparent affluence, was Britain, as a nation, really ready for the effects of devaluation? That would certainly have meant a respite, but only a temporary one, and would have led eventually to a much greater concentration of individual effort than the people are, as yet, ready to make.

The people of the U.K. have been offered a last chance to recover their position, but in a completely new, unprecedented, and rapidly changing environment of world trade. A glance at the economic and trading maps now published, though hopelessly inadequate in themselves, should suffice to convince any business man of the extent to which the world has contracted owing to improved communications, is exploding as regards populations, and emerging with dangerous speed into an almost unrecognizable pattern of world trade. As the front article of *The Times Literary Supplement* of October 21st, 1965, entitled 'Followership' says,

> 'The world shrinks frighteningly fast. Techniques and communications subject us too swiftly to new stresses. We are suddenly required to adopt and adapt new means for old ends.'

(And those who may be under the impression that *The Times Literary Supplement* is of interest only to occupiers of ivory towers in Oxbridge, should read an earlier article, in the issue of August 23rd, 1963, on the training of business managers, entitled 'New Rooms – New Brooms'.)

Even so, there is a real danger that business community in Britain may not sufficiently grasp the truth that exports can no longer be regarded as an 'overspill' from the home market. In the hey-day of the U.K.'s leading position in world trade, the margin of superiority in that sphere was amply sufficient to allow a working assumption that the overseas nations would be willing to accept whatever was 'over' from home production and that 'overspill' would pay for imports of raw materials. As recently as the nineteen-thirties, business men were serenely unaware of the changes creeping up on them, nor had they any inkling of the need to learn new lessons. It continued to be common practice to offer for export excess production for which there was no home demand, at a price representing marginal cost plus overseas transport. The underlying idea remained that, if total home market costs were covered by the home trade, this excess production could be offered for export at a price which would help to reduce the rate of oncost on total turnover.

More recently still, in July 1950, the annual meeting of the Royal Economic Society was addressed by two economists, H. P. Barker, of London, and R. F. Kahn, of Cambridge, on the question, 'How far is a substantial home trade a necessary condition to an efficient and competitive export trade?' Barker confined his remarks to that section of the engineering industry concerned with mass produced goods, and drew the conclusion that although an export trade in light engineering goods could only exist precariously as a spillover from the home market, this was not the whole truth. He instanced products used by a substantial proportion of mankind independently of national habits, in which an export trade could be developed without the backing of a large home market (e.g. Swiss wrist watches). Nevertheless, he obviously had in mind the existence of a substantial home market, the overspill from which could be used for export to reduce the fixed overhead cost rate.

Mental inertia

Kahn was mainly concerned with the short- and long-term effects on export trade of a reduction in domestic demand and volume of home trade. (Business men at that time were troubled about the adverse effects of purchase tax and other restrictions on the efficiency of the home industry and consequently, so some argued, on exports.) After discussing the various aspects of these two cases and the arguments for and against the 'overspill' school of thought, he referred to the business man's disinclination to enter into hitherto undeveloped export trade owing to the heavy demands on his energies: the working up of new contacts, devising special selling methods and special types of products, of organizing service facilities; in fact, to quote from his paper, 'all too often mental inertia will determine the issue the other way'. (Compare this with *The Times Literary Supplement* article referred to above, 'economic stagnation in Britain is not due to ignorance, or incapacity of management, but to ease, sloth, cosyness all round' – *repeating Kahn's stricture after a lapse of fifteen years.*)

Kahn concluded his address with a final warning that,

> 'What is wanted is a complete change of attitude of mind and a ready acceptance of the fact that in many lines it will remain necessary to export a far higher percentage of output than would before the Second World War have been regarded as tolerable (though incidentally the necessary proportions would often seem modest when compared with the proportions ruling in the era which ended in 1914).'

Could it be that the exceptional rates of profit earning during the two war periods conditioned British business men to attitudes in which it was well nigh impossible to recover their previous zest for overseas trade?

Need for new pattern

Whatever may be the cause, the truth of the above warning will be immediately recognized if one considers how the traditional exports have disappeared from the U.K.: in textiles – the industry pleading for protection from foreign imports: in coal – a cheer was raised when coal was exported recently: in steel – importing from America. What is required is not a restoration of the old pattern, but a building up of an entirely new pattern consistent with the changing world pattern.

This 1950 meeting of the Royal Economic Society was well attended by a representative sample of business executives of varied interests who were obviously alive to the practical aspects of an economic approach to business activities. Nevertheless, and despite the caveats uttered by the economists addressing them, the discussion which ensued revealed that they were still thinking in terms of an inbred idea of exports from overspill. Such is the power of tradition.

A decade and a half have elapsed since that meeting, yet only now is it beginning to be accepted that the previous stereotype pattern of world trade has been and is being transformed with revolutionary speed. The National Institute of Economic and Social Research has just issued a report (published by Cambridge University Press) entitled, *The British Economy in 1975*, in which increased competitiveness in foreign markets is emphasized as an essential condition of Britain's growth.

Quite; but how are business executives to achieve increased competitiveness in foreign markets? In what products and in which markets? By a more scientific deployment of labour, the intensification of the use of existing capital investment and intelligent extension of automation costs can certainly be reduced and output increased; but where is the output to be sold competitively? Where is this changing demand from

overseas coming from? Who are the people clamouring for goods of which there is no previous knowledge, and can those goods be supplied competitively to special requirements?

With a contracting world, emergent nations, changing industrial potentials, and world trade becoming more and more the equivalent of home trade, more information and direction are required before the contacting of new customers for mutually satisfactory business can even commence. To enable a satisfactory course to be steered through hitherto uncharted seas, there should be a pronounced insistence on those international organizations responsible for plotting international trade, furnishing really informative maps, frequently revised and brought up to date, showing in detail, in quantities and values, such things as raw materials (indigenous, imported or exported), manufactured goods imported or exported, transport and port facilities, populations (male, female, age groups, employment, etc.), financial positions indicating balance of payments positions and where additional credit facilities may be required, prospective development, and so forth.

The provision of such economic intelligence would at least help executives to commence adjusting their sights to the changing world pattern, and enable them the more confidently to chart their competitive way through the unprecedented conditions in which they now find themselves. In so doing they may eventually come to regard exports as legitimate trade in their own right and not just an overspill of the home market.

The professional accountant, pre-occupied with matters of taxation, may consider exports to be outside his province. And yet, it is this very fact of being outside the daily activities of the businesses whose accounts on which he is called upon to report, that gives him the opportunity to stand back from the direction of those businesses as individual entities, and to view the results in the true perspective of their contribution to the economy as a whole. The industrial accountant, so intimately concerned with the economic and financial progress of the business for which he is acting, cannot fail to benefit its direction by being acutely and actively aware of its dependence on the success of the economy as a whole, of which exports are so vital a part.

Preparing for the Profession

by H. C. EDEY, B.Com., F.C.A.
Professor of Accountancy, London School of Economics

Education for the profession continues to be a talking-point throughout the accountancy world. The author of this article, reproduced by courtesy of the editor of Education *from his November 19th, 1965, issue, takes a critical look at the present system of training in the United Kingdom.*

ACCOUNTANCY can mean a number of different things. It may include the work of public accountants, of accountants in industry and commerce and of accountants in public authorities, whether of central or local government. These spheres are covered by the activities of several different professional bodies. Here I shall have in mind particularly the educational requirements appropriate for those who intend to become members of The Institute of Chartered Accountants in England and Wales. What I have to say is also relevant, however, to membership of The Association of Certified and Corporate Accountants and The Institute of Cost and Works Accountants, if one bears in mind certain differences in the regulations of the three societies, and the fact that members of the latter Institute do not practise public accountancy. Apart from the last point, the main difference between the latter two societies and the Institute of Chartered Accountants, from the viewpoint of educational requirements lies in the fact that service under articles to a public accountant is only essential for chartered accountants. The Chartered Accountants of Scotland have similar educational problems, but have met these in a somewhat different manner and I shall not discuss that Institute. Nor shall I discuss such specialized bodies as The Institute of Municipal Treasurers and Accountants.

An important question

An important question that the accounting profession as a whole will soon have to face is whether it is to divide vertically into 'technological' and 'technical' slices. It has been suggested that not the least of its educational problems is its present attempt to cater in a single system for too wide a range of skills and responsibilities. I shall not discuss this question here and what I have to say will be directed towards the educational needs of what may be called 'accounting technologists'.

Under the present arrangements all young men or women who wish to become chartered accountants must undergo three, four or five years' articled service in the office of a public accountant. If the man is a

graduate of a United Kingdom university then, regardless of the faculty in which he took his degree, he is required to do three years' articled service. If he left school at 18 having taken the 'A' level General Certificate of Education together with appropriate 'O' level subjects his service is four years. If he left school at 16 with the appropriate 'O' level subjects he must serve for five years. Some 10 per cent of all students who qualify are graduates. Of these roughly half have taken an approved degree which includes the study of economics, law and accounting; in their case the period of service is the same as for other graduates but there is exemption from the first of the three examinations that must be taken by all others, namely, the Intermediate examination. The other two examinations are Part I and Part II of the Final. Nearly all those taking these examinations, whether graduates or otherwise, prepare themselves by following a correspondence course, studying in the evening. Thus education for membership of what must be regarded as the senior body of the profession in England and Wales is still largely a matter of apprenticeship and evening study through correspondence courses.

Strong bias

The examinations are strongly biased towards the main professional subjects. A good deal of weight is placed upon memory work, particularly on the legal side; it is fair to say that the examinations both in fact and intent are devised to test the achievement of a minimum degree of professional skill, and that the correspondence courses are designed to provide a training for examination in the relevant subjects rather than an education in the wider sense.

In parallel with the evening work for the Institute's examinations, there is the day-to-day professional work that the young man or accountant is performing in his principal's office. There is an obligation on members of the Institute who take articled clerks to see that their tasks cover a proper range of work. There is little doubt that the quality of the practical training in articles varies widely, and while some offices provide excellent experience, it is true to say that many clerks are dissatisfied.

The relative narrowness and 'training' aspect of this course has been recognized recently by the creation of a new, post-qualification certificate which is to be called the *Certificate in Management Information*, the main aim of which is to encourage qualified men to read and study more widely. It seems likely that many of those who decide to work for this certificate will do so in colleges of further education, but there is nothing to prevent study for it by use of correspondence courses and it seems that some of those who work for the new certificate will follow such courses.

It is probably true that of those who study for membership of The Association of Certified and Corporate Accountants and The Institute of Cost and Works Accountants, many more carry out their study in colleges of further education than is the case with would-be chartered accountants. Nevertheless, correspondence courses still play an important part in the education arrangements of these institutes. While formal apprenticeship in the sense of articled clerkship is available to students of the Association, many attain their qualification without this, obtaining their practical experience by ordinary employment in accounting work; this is the general rule for membership of the Cost and Works Institute. The syllabuses of the latter two bodies, and their examination papers, do not suggest a substantially greater educational content than those of the chartered accountants but rather that they, like the latter, are primarily tests of minimum professional competence.

Substantial differences

Thus the education of the majority of accountants in Britain differs substantially from that regarded as appropriate in the other main professions such as medicine, engineering, and – now – law. It also differs from what is regarded as normal in other countries, notably in the United States of America. In the United States it is usual for a would-be professional accountant to have a college degree. It seems likely that before long virtually all American public accountants will have studied their subject in college, many of them at the graduate level having previously graduated in a non-professional subject. The same tendency is noticeable in such countries as Germany and Sweden.

Many people are concerned with the present situation of accounting education in Britain because they think it fails to ensure that accountants have an adequate general education, does not provide an education in the basic disciplines that are relevant to and underlie much of accounting work, and does not ensure a good training in the most recent techniques of the subject.

As regards general education, accounting is not perhaps in such a different position as other professions in the United Kingdom, in that the present system of intense specialization in the fifth and sixth forms of British schools is equally damaging whatever a man's profession may be. Nevertheless, the fact that the senior body of accountants is still prepared to recruit at the age of sixteen means that it is out of line with virtually every other profession and with the general trend in education in the country.

Next there is the question of the educational subjects that are basic to accounting work. Just as in medicine the biological sciences form an indispensable foundation for practice, so an accountant serving modern business who wishes to perform his work satisfactorily needs a good understanding of the economic system as a whole, the economic forces that determine the flow of resources, the main economic problems of Government and business, the use of elementary statistical and other mathematical methods in business and preferably should know something of the political system and problems of social organizations. The syllabuses of the various accounting bodies have more or less regard to these subjects – on the whole less. They enter only

marginally into the chartered accountant examinations. They are provided in varying degrees in the approved university courses which can precede the professional training, but of those qualifying, only a small number take these or similar courses.

Not designed for critical study

Apart from content, the present system of preparation for the professional examinations is, if one excepts some work done in good colleges of further education, not designed to give a good foundation of dispassionate and critical study. The emphasis is on learning by rote and the application of standard rules. The study of legal subjects is at so shallow a level that to most students it must seem trivial and boring; basic ideas of statistical probability – of ever-growing importance in the world – are either ignored or merely touched upon; reasonably wide reading about, and critical discussion of, the operation of the economic system is largely lacking; the relationship between accounting methods and the economic problems of business and of Government, to the solution of which they should contribute, have little part in the courses.

Perhaps even more important, there is little opportunity to meet and talk with other students of the same subject, or working in other faculties, in the unrestrained atmosphere of a college, in a setting where criticism of received authority and the need to think for oneself are taken for granted.

There is a certain irony in that the present system of training has been regarded by many as essential in order to guarantee professional competence. Yet there seems reason to believe that it is failing even in this respect, for although there is no doubt that certain aspects of the various syllabuses do call for an adequate understanding of important parts of professional and industrial work, it is equally clear that other aspects are not dealt with as well as they might be and some of the newer techniques, notably computer science, have been relatively neglected. While it is usually safe to assume that a man who is qualified for membership of any of the main professional bodies mentioned is able to write up a set of books competently, it would be a serious error, for example, to assume that he understands enough of the market forces which determine the prices of securities to be in a position, even after experience, to give businesses seeking finance adequate advice on the different uncertainties that lie before them.

Big changes likely

There is increasing awareness of the situation, and it seems likely that the next few years will see big changes in accounting education. I am prepared to risk a forecast of the kind of developments which may be expected in the education of the would-be chartered accountant. It seems likely that the other bodies named (who in certain respects, it should be said, have been rather more forward-looking) will develop their arrangements on the same lines.

In the first place it seems unlikely that the present minimum age for entry to articled clerkship will remain at 16. One can expect a minimum age of 18 to become mandatory before long.

One can also expect that before long systematic arrangements will be made to provide for at least a minimum educational background in the basic subjects I have mentioned above, including the study of accounting methods in the context of their purposes – arrangements for what one might call 'pre-professional' courses. Exactly what form such courses will take is hard to say, but it seems not unlikely that there will be eventually several ways of qualifying educationally before entering the final stage of training for the profession. One can envisage a situation in which one or other of the following methods of entry might be required:

(1) taking an approved graduate course at a university, college of business school for at least one year, following graduation in any faculty.

(2) taking an approved undergraduate course in economics and other social studies of the type that already exist in a number of universities and are now being set up in technical and commercial colleges under the degree-giving powers of the Council for National Academic Awards.

(3) taking a diploma in business studies in an approved technical or commercial college.

Since there will probably always be some people to cater for who cannot be fitted into one of the above categories, e.g. because they live in outlying regions, one can envisage as a fourth 'way-in' some kind of correspondence course, perhaps under the aegis of an approved college, coupled with short-term residential courses.

Main aim

The main aim of all such pre-professional courses would be to provide a good educational foundation for professional work, in a college setting of the kind which we now accept as normal in the education of, say, an architect or an electrical engineer. Approval of a course or college in this context would mean approval by the professional body concerned.

There would remain the need for specific professional training in such matters as the practical side of auditing, systems installation, tax consultancy, and so on. This might form the final stage in the student's period of qualification, the instruction being coupled with training under articles or, more probably, in approved employment, after he had graduated or received his college diploma. Since some aspects of training can be provided best and most cheaply in collegiate surroundings it seems not impossible that selected technical colleges and possibly, if they were willing, a few university colleges, might be chosen to provide professional training courses on a sandwich or part-time basis, though full-time courses would not necessarily be ruled out.

Internal Audit and Statistics

—used in selecting fields for investigation to aid management

by J. O. DAVIES, F.C.A., A.C.W.A., Chief Internal Auditor, National Coal Board
and H. C. MACKENZIE, D.S.O., M.A., Chief Statistician, National Coal Board

Two papers presented at a meeting of the London and District Society of Chartered Accountants on December 9th, 1965

Mr J. O. DAVIES'S PAPER

THE *Oxford English Dictionary* defines statistics as the collection and arrangement of numerical facts or data; *Webster's Dictionary* defines them as 'the collection, analysis, interpretation and presentation of masses of numerical data'.

Internal auditing is an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls.

Scientific statistical sampling is useful when an opinion is wanted on the degree of accuracy of an accounting statement or return, and where it is reasonably certain that the field from which the sample is to be drawn is homogeneous.

The advantages of using scientific statistical sampling in suitable circumstances are recognized as:

(*a*) providing a more objective standard;

(*b*) permitting better advance planning of audit work;

(*c*) justifying the amount of work done.

Scientific statistical sampling does not take into account the relative seriousness of different kinds of errors. An error of 1*d* carries as much weight statistically as an error of £100.

Unprofitable activities

If the exposure of unprofitable activities or wasteful forms of expenditure is the objective of the audit, then a different method of sampling is essential to allow for a wide variation in the approach to the audit. Considerable time must first be spent surveying the field before the sample is chosen. A preliminary step may be to stratify the field, e.g. to segregate all those employees whose overtime earnings exceed, say, £6 per week or those whose piecework earnings exceed, say, £25 per week.

It is sometimes highly debatable whether excessive waste or loss has occurred, whether the amount is more than normal for the business and whether any control measures are possible. Consequently, control of waste is concentrated on bringing out the abnormal. To this end, protective measures are devoted to:

(*a*) insuring that loss due to waste is separated on accounting records and reports and is highlighted by statistics and is not 'buried' through combination with regular transactions;

(*b*) developing a 'normal' loss through standards of performance so that excessive losses will be highlighted and presented in statistical form.

It is generally recognized that wasteful operations are more costly than fraud and that such operations may be concealed because of ill-considered and inadequate controls.

It is also well to remember that waste is continual and can be widespread (and here I am referring to the commercial world in general), whilst fraud is generally occasional and limited to a few individuals. It is probable that more waste comes from defects in the administration of essentially sound systems than from inherent weaknesses in the systems themselves.

Judgement sampling

The type of sampling with which we are now concerned is generally known as 'judgement' sampling. This type of sampling offers a statistical approach more nearly designed to meet some of the problems peculiar to internal auditing. The internal auditor's objective is to find, first of all, a single example of a violation of the internal control system and then, if needs be, to determine by other means (scientific statistical sampling may be one of these) the extent of the violations and also the features of the procedures and systems that allowed these violations to take place.

It is my belief that auditors (both external and internal) will always be required to use their judgement in selecting the sample, whether or not statistical concepts are introduced into their sampling plans. In certain circumstances, the auditor may wish to place special emphasis on transactions having particular characteristics and is, therefore, unwilling to leave a selection to chance. The freedom of the auditor to select the most effective method of gearing his sampling techniques to the specific objective of the audit should never be restricted.

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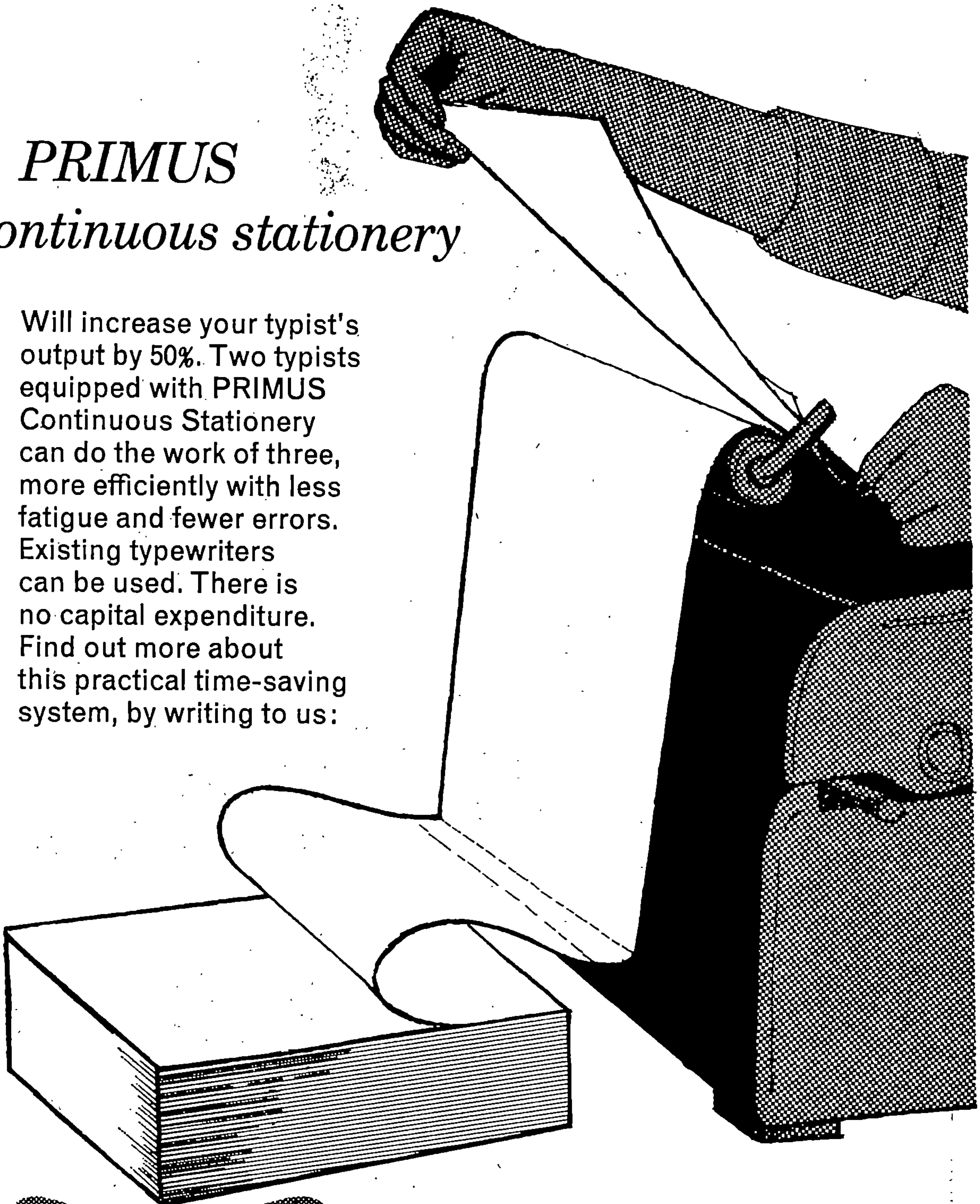

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Surveying the field

As a preliminary a general survey is required to determine whether any indications exist that any area of transactions should be examined first, or with particular care. Two techniques are used:

(*a*) *trend analysis* – a diagnostic method in which the operating statistics for previous periods are used as criteria for the evaluation of the reasonableness of the current income or expenditure;

(*b*) *proportional analysis* – a diagnostic method which appraises statistics of income and expenditure by normal or known relationship to other income or expenditure.

The technique of proportional analysis is applicable to purely statistical relationships. To quote a simple example – if the discount allowed to customers is 2 per cent, the aggregate of cash discounts should be some amount that is less than 2 per cent of the sales.

Another example is where a distributor of equipment sells at a uniform mark up, sales and costs of goods are statistically reconcilable items. Standard formulae in chemical industries also provide an authentic source of statistical comparison.

Some proportional comparisons are based on ratios from other organizations or are based on industry averages. Some trade associations compile average costs for the information of their members.

Examples of the use of statistics by internal audit in the coal industry

Wages

Statistics of overtime earnings:
- ratio of taskworkers to pieceworkers;
- earnings per manshift as compared with output per manshift;
- shift average rates;
- percentage of wages payments not related to national or local agreements.

Trend of unclaimed wages.
Trend of wages cost per ton.
Occupational classification of wage earners per colliery as compared with other collieries.

Sales

Stock gains/losses at depots.
Losses on picking up coal from ground sites.
Comparison of estimated and actual saleable tonnages.
Records of input for re-screening and subsequent output from screens.

Stores

Monthly stock summary by classifications.
Storekeepers stock differences.
Amounts written off for obsolescence and redundancy.
Actual consumption with budget.
Stores statistics showing number of months supply.

Production

Monthly return of face supports for hydraulic props.

Road transport

Cost per mile of each vehicle.
Cost per operating hour of each vehicle.
Effective use (hours per week) of each vehicle.
Mileage per tyre.

Canteens

Gross profit percentage.
Number of cups of tea per lb. of tea.

Farms

Yield per acre. Piglets per breeding sow per year. Eggs per laying fowl per year.	All compared with statistics of local, county and national areas.

Briquetting plants

Weight of output as compared with measured input of raw materials as related to laboratory tests.

Licensed mines

Statistics of output to verify royalty payments.
Statistics of manpower to verify contributions to mineworkers' pension scheme and supplementary injuries scheme.

Opencast

Statistics in surveyor's progress reports to verify payments to contractors for prospecting and boring and production contracts.

Computer centre

Statistics covering number of errors found divided by types.

Utilization of resources

Statistics of the extent of the utilization of plant and equipment (including coal face machinery). Where information is available showing work performed by individual machines (e.g. coal handling plant, grabs, cranes, etc.) details of tonnage carried is also utilized.
Planned maintenance records in order to ascertain:

(*a*) evidence of existence of assets;
(*b*) assets that are being neglected.

Example

Planned maintenance records at a central washery were recently used to ascertain breakdowns on an aerial ropeway handling washery rubbish. The purpose of the exercise was to estimate the weekly capacity of the ropeway after allowing for the breakdowns and then to compare it with the total washery rubbish declared for the week. Lorries were on hire to the Board to handle rubbish in excess of normal and it was desired to obtain an opproximate check on the work executed by the hired lorries.

Detecting fraud by statistics

The majority of fraud is clear cut. It is relatively simple to establish that fraud has occurred, how much is involved, and whether or not corrective measures are required provided that auditing in depth takes place in a small number of places chosen as those in which the fraud is most likely to occur. In this respect an audit to discover fraud differs fundamentally from one concerned only with accidental error.

You will understand that frauds can occur within the National Coal Board by understating the weight of coal dispatched. This can be accomplished by either overstating the tare weight of the vehicle or understating the laden weight of the vehicle or both.

A statistical review of the tare weights and gross weights of a particular vehicle (plotted on graphs for preference) over a period will often reveal evidence of fraud and this is particularly so as regards tare weights. When this statistical history is related to a particular person employed at the coal depot with unfavourable comparisons with the weighing history of other employees at the depot, the evidence becomes stronger.

When statistical evidence shows that the loads of a particular merchant (or merchants) are always weighed by a particular employee, further suspicions are aroused.

It has been said that trends and variations from standards represent the only true significance in figures.

In two ways, internal audit have assisted in the National Coal Board in the creation of statistics to operate as standards. First, in controlling the operations of coal depots. On a number of occasions, internal auditors have spent a week at a depot. Stock has been carefully taken at the beginning of the week. The weighings of input and output have been carefully supervised by internal auditors, whilst another official has supervised the outside activities in the depot. The stock has then been carefully taken at the end of the week. A standard loss of coal has been established and subsequent losses measured against such statistics.

Similarly, a stay-in visit by internal auditors undertaken with a senior member of the Board's catering organization has enabled a standard percentage of gross profit to be established under close supervision of kitchen and selling counters.

Use of computer to select sample

The selection of the sample by judgement instead of by scientific methods naturally involves the scrutiny of the composition of very many records and is accordingly time consuming. Where the system used is based on electronic data processing, it is a simple matter to program an application in such a manner that abnormal items are printed out on special listings. This allows the auditor to concentrate his attention on the exceptional items. For example, on a wages application, arrangements can be made for the following information to be separately listed. Details of persons on the payroll where:

(1) more than five shifts have been worked;

(2) overtime exceeds (say) £6 per week;

(3) there is net pay but no shifts (absence of time card);

(4) there are shifts but no net pay (absence of a personal record card);

(5) net pay exceeds (say) £25 per week.

As regards sales, listings can be obtained of sales within a specified category where the invoiced price exceeds £*x* and falls below £*y*.

As regards a stores application, listings can be obtained of:

(1) credit stock balances;

(2) invalid stockholding point numbers;

(3) absence of standard price on stock reference file.

Conclusion

The nature, extent and timing of audit tests must necessarily vary with the appraisal by the auditor of the conditions of internal control.

The use of a technique should be founded upon the value of its application in a specific area of the audit and also within the overall circumstances in which the engagement is carried out. The virtue of the choosing of the sample depends upon the object behind the sampling process.

To make his audit of particular value to management, the auditor may wish to place special emphasis on examination of items having particular characteristics and accordingly may be unwilling to leave their selection to chance.

Familiarity with the work involved will often provide the auditor with a basis of judgement, based on past experience, which is undoubtedly sound – this applies more to internal auditors than to external auditors. In selecting the sample, the auditor therefore exercises his professional judgement which, I submit, is the most important tool that he has at his command.

Mr H. C. MACKENZIE'S PAPER

THERE are two alternative approaches to discussion of the relationship between auditing and statistics:

(i) The usual approach considers auditing as a problem in evaluating the general state of an accounting system. It attempts to provide sampling rules which will assist the auditor in selecting the individual items to be investigated and determining the number of such items required to justify an opinion based on the selection.

(ii) The second approach looks at the auditor's job from a different point of view, and sees it as a problem of searching out inefficient or wasteful parts of management control systems and recommending changes which will improve their effectiveness. This approach is particularly relevant to the functions of the internal auditor.

As regards the first approach, the role of statistics is fairly obvious, even if its application is somewhat controversial. It is aimed at giving the auditor an objective and defensible method of sampling in situations where he is required to make general statements about particular sectors of an accounting system. It is basically a matter of *auditing* technique.

The second line of approach, however, is much more a matter of *management* technique. If the objective of internal auditing is to eliminate inefficiency, then what is needed is not a scheme for giving all items in a sector an equal chance of being selected, but a means of identifying those parts of the sector in which inefficiency is most likely to be found. One method of doing this is for the auditor to focus

his attention on those parts of a control system which he judges to be weakest; another is to use statistical methods to identify activities or individual operating units which compare badly with others and are therefore potential fields for improvement.

It is this second line of approach that I now propose to discuss.

Statistical framework

It is necessary, first of all, to make quite clear what kind of statistics is relevant. The simplest way to do this is to state briefly what the Statistics Department does in the National Coal Board, and to outline some of the underlying philosophy and ideas which direct its efforts.

The most important point to appreciate is that the department is concerned almost entirely with operating statistics, i.e. with numbers, quantities and ratios which reflect movements in the day-to-day operations of the pits which form its separate accounting units. These numbers and ratios – output, sales, manpower, output per manshift, cost per ton, earnings per manshift, etc. – reflect the complex set of relationships which are basic to any large industrial organization, and provide the raw material on which many important decisions are made.

Broadly speaking, the information system comprising these operating statistics is intended to fulfil two functions:

(i) the appraisal of general trends so that policy can be adapted to the course of events; and

(ii) the identification of problems, with reference both to the field of activity and the individual location.

Much can be said about both of these functions and about the relationship between them, but this paper is confined to the second, since it is here that statistics and internal audit can find the most effective way of complementing each other's services to management.

Identification of problems

Regular analysis of movements in the main operating statistics and their components, of course, quickly draws attention to adverse trends in any particular field of activity. Once this is known, the basic philosophy underlying the identification of the more acute problem locations is very simple. We start with the following propositions:

(i) that while averages may indicate general trends, only by the analysis of variation can attention be drawn to specific problems;

(ii) that pay-off from improvements comes mainly from action at the point of operation, i.e., in our case, from action at collieries or, for some purposes, areas.

It follows that while examination of the average level of a performance index may suggest that there is room for improvement, identification of units with the greater potential for improvement, i.e. the poor performers, must come by examining the frequency distribution, particularly the tail of the frequency distribution.

Consider how this might work in practice. It is well known that the National Coal Board's biggest single problem at present is the shortage of manpower. With suitable operating statistics, it is possible to put a figure to it: but it is only when this figure is allocated to locations, e.g. divisions, that action can be taken to overcome it. Even then, it may not be enough to know that a division is short of men, because ultimately in transferring a man, for instance, it is necessary to offer him a job at a specific colliery. In the end, it is necessary to study the frequency distribution of shortages, to identify collieries with the greatest deficiency in manpower and to study them in detail in order to determine the necessary action, e.g. to plan a recruitment or transfer campaign around it, to increase the supply of capital for labour-saving devices, and so on.

An important practical aspect of this approach is that in most fields, it generates a continuous cycle of improving activity. For instance, if a study of the frequency distribution of accident rates leads to special investigation and action at units at the poorer end of the distribution, success in any action that is taken will, by cutting off the tail, raise the average, but still leave a distribution with a new tail for subsequent investigation. In other words, even if a business activity is functioning efficiently, there should still be room for improvement. The approach deals with relative inefficiency within the organization and does not, of course, imply absolute inefficiency.

Role of internal audit

How, then, does internal audit enter into this? The answer is that in any field which is important financially (and most of them are) internal audit must shoulder the task of tracing any accounting or recording deficiencies which may be contributing to poor performance. Perhaps this can best be illustrated by considering one or two typical examples from statistics which are regularly collected and analysed in the National Coal Board.

Example 1: Deployment of coal face machinery

One of the Board's most important assets is the supply of coal-face equipment, particularly of power-loading machines, which now win about 80 per cent of its total production. The failure of one of these machines is so costly in terms of lost output that most managers make a special effort to ensure the existence of an adequate supply of reserve machines. Furthermore, new and improved machines are becoming available all the time and managers naturally want the most up-to-date models. Consequently, the Board has evolved a system of plant pools and other controls designed to ensure that the best use is made of the coal-face equipment it buys. But, with a large number of areas run by managers who have considerable delegated powers for expenditure on capital equipment, there is obviously some risk of over-insurance. The Statistics Department therefore collects regular statistics of the numbers of all principal items of coal-face equipment held and in use, and this is presented to and discussed each month by senior production management.

It is evident that the ratio of machines in use to machines held, can be influenced by two major factors: (*a*) the true underlying relationship between the number of machines in operation and the supply of reserve machines; and (*b*) the soundness of the accounting system in enabling us to determine and check physically the true extent of holdings. When the reserve ratio appears to be unduly high, therefore, there are two lines of action required, a production investigation to secure a better physical deployment of machines held, and an auditing inquiry to

determine that the reserve supply is in fact there, that it consists of serviceable machines and not of obsolete or damaged machines which should have been written off, and that control procedures are being properly implemented. For this purpose, of course, the statistics have to be analysed by location in order to identify areas or divisions in which adverse movements are occurring or in which reserve ratios are unduly high.

Example 2: Consumption of hydraulic props

Another example concerns the industry's use of hydraulic props which the Board purchases in very large quantities with a total expenditure of several million pounds a year. Some time ago an analysis of trends in materials costs indicated that while expenditure on this type of equipment was increasing, with consequent reductions in expenditure on other obsolescent types of prop, the expenditure seemed to be increasing at a greater rate than might have been expected. Statistics Department was therefore asked to undertake surveys of the consumption of hydraulic props.

These surveys, which are essentially accounting balances of the supply and issue of props over three-month periods, indicate quite clearly that the main source of consumption is not damage or destruction followed by scrapping, but loss. Loss can in practice mean one of two things: physical loss in the sense that props are not recovered when a coal face advances, or accounting loss through loose control, so that usable props may be abandoned in accessible places through carelessness or because it is easier to obtain a new issue from the stores. In practice, it may not be possible to distinguish between the two possibilities, but obviously there are two lines of action that can be taken where losses are greatest: first, managers can pay more attention to salvage operations, and secondly, the control system can be tightened up.

Here, the use of statistics for determining how the internal audit effort should be allocated is simple. The range of variation in loss rates is very wide. A frequency distribution of loss rates by colliery will therefore identify those with the highest loss rates and it is there that the main effort should be concentrated. This is not to say that loss rates, even at the tail of the distribution, are necessarily a sign of excessive waste but that if improvements can be made, this is the most likely place. It is also worth while paying some attention to pits with zero loss rates, however. If a pit has a fairly large number of props in use at the face, it is very difficult to achieve a situation of no losses, so it is worth while verifying that the statistical reporting system is reliable.

Example 3: Accident reporting and recording

Problems of safety and safety measurement are not usually thought of in connection with the work of internal audit, but it may be of some interest to consider the relationship of statistics and internal audit in this field.

The definition of an accident for purposes of accident statistics is closely related to the procedures by which a man is granted insurance benefit in respect of an injury sustained at work. Before accepting any claim for benefit, the Ministry of National Insurance inquires of the employer whether he is satisfied that the alleged accident did in fact take place. The principle on which accident statistics are based is reconciliation of this Ministry inquiry with the normal report of an accident at the pit.

It is fairly obvious that both the validity of the accident statistics and the efficiency of the insurance procedures depend on reliable accident reporting and proper reconciliation of inquiries and reports. Any slackness in the system, whether on the reporting side or the reconciliation side, can lead to wide variations in accident rates and make the administration of industrial injuries schemes much more inefficient and costly than it need be. In practice, a soundly administered scheme of reporting and recording is likely to have a two-fold effect, in that, first, legitimate claims for insurance benefit are cleared very quickly; and, secondly, the emphasis it places on prompt and careful reporting tends to create a general climate of safety-consciousness.

Here again, internal audit, by seeing that sufficient attention is being paid to the proper validation of Ministry inquiries – which are in effect requests for authority to pay Supplementary Injuries Benefits on behalf of the Board – can do much to ensure that accident prevention activities are backed by a sound reporting and recording system. And again, the best allocation of their efforts is likely to be in places where accident rates are high, i.e. the tail of the distribution, rather than a random spread, since an inefficient system of reporting and recording is very often a reflection of a low standard of, and attitude to, safety.

Concluding remarks

The views and ideas put forward in the preceding paragraphs may seem unusual, especially coming from a statistician who has spoken and written elsewhere about the desirability of auditors using more objective and scientific methods of selecting items to be investigated. I would suggest, however, that the ideas outlined above are no less scientific than those associated with probability sampling. The difference lies in the aims.

In situations where an auditor is concerned with expressing general opinions about a population of items, it is right and proper that he should make chance his ally and use probability sampling. But if, as it may be in the case of an internal auditor, he is aiming first at the elimination of inefficiency in his organization, his method of selection *should* be biased towards the more inefficient units. For this purpose, selection by means of frequency distributions of performance indices are just as valid a use of statistics as the use of probability sampling is for the former purpose.

In practice, it is often found impossible to distinguish from a statistical performance index whether it is the administrative and accounting system or the physical operations which are inefficient when performances are poor. Thus it is possible to think of internal audit as a necessary complement to arrangements for physical investigation in such cases; i.e. as an investigating agency where statistics provide an instrument for trouble-spotting.

It is, of course, for the auditor himself to decide what his primary aims are. I would suggest that, in fact, these may change from time to time and from auditor to auditor. And that once this question has been resolved in any particular case, any question associated with the contribution of statistics – whether to use it as a means of invoking chance or of introducing conscious bias – will easily resolve itself.

The authors of these two papers wish it to be understood that the views expressed are their own, and not necessarily those of the National Coal Board.

Finance and Commerce

Paterson, Zochonis

PATERSON, ZOCHONIS & CO LTD is a Manchester-based company operating as merchants and agents, mainly in Nigeria. There are a number of West African subsidiaries but parent company interests represent 47·2 per cent of group net assets. A full list of home and overseas subsidiaries showing the extent of the group's interest and the percentage of net assets represented is included in the report, from which this week's reprint of the accounts is taken. Principal trade investments are also listed.

In such a company there is clearly a particular need for shareholders to be informed of the anticipated effects of changes in tax legislation and Mr A. H. Loupos, the chairman, deals at considerable length with this point. At present the company qualifies as an overseas trade corporation and is expected so to qualify until April 5th, 1966. As a result, only two months of trading profit for the current financial year will fall within the new corporation tax provisions and the full impact will not be reflected until the 1966–67 financial year.

Whether or not any liability to corporation tax will arise in the future will depend upon where the trading profits are earned and whether or not the overseas subsidiaries pay dividends. In that context Mr Loupos points out that the tax rates in the countries in which the overseas subsidiaries operate are higher than the stated maximum of 40 per cent corporation tax.

Relief

This tax position also applies to most of the countries in which the parent company operates, through trading branches; but there are anomalies, such as where branches are entitled to carry forward losses to subsequent years for overseas tax purposes. Had the 1964–65 profits been subject to corporation tax provisions, the tax charge in the accounts would have been £20,000 higher at £351,000 and, of the increase, only £4,000 would be additional corporation tax, assuming a rate of 35 per cent.

The transitional relief provisions also apply to the company so far as 'overspill' relief applies. On a 35 per cent corporation tax basis, the maximum annual amount of credit for overspill relief is estimated at £46,000. On a 40 per cent corporation tax basis it would be £35,000. But Mr Loupos explains that the relief, which falls to be computed separately for each year of claim, may be less than the estimated maximum relief indicated and these computed reliefs are receivable in full for the three fiscal years 1966–67, 1967–68 and 1968–69 and will abate by one-fifth annually thereafter until the relief disappears in 1972–73.

The most serious effect of the new legislation will be in the payment of dividends gross. The total loss in retentions on the assumption that all the provisions of the Finance Act, 1965, had applied for the year under review would have been £27,163, resulting from an extra cost of £53,163 in paying the dividends and an additional £20,000 tax charge on profits less maximum transitional overspill relief of £46,000.

Changed presentation

So much for the 'simplification' of company taxation through the introduction of corporation tax, but also, one hopes, thanks from Paterson, Zochonis's shareholders for an explanation of the position. It may be added that advantage is being taken of the transitional provisions of the Finance Act by bringing forward the current year interim dividend from May to March.

A change in profit and loss account presentation by the company this year is to show trading profit before charging interest on bank borrowings. Another point is the figure of £1,686 for profits and adjustments relating to prior years, the figure being materially affected by a deduction of £108,112 for exceptional depreciation of fixed assets.

The amount of £101,745 shown in Note 4 to the profit and loss account is related to certain remuneration under agreements which were recently re-negotiated and, the chairman explains, has been included under this heading 'so that only one year's income from these sources is credited in arriving at the profit for the year'.

Net asset value

The taxation adjustment of £73,744 credited in the parent company's accounts was an amount set aside by that company to make up a shortfall in a subsidiary's accounts. The subsidiary has now made full provision for taxes payable on profits earned to date and this amount is no longer required. From a group aspect the credit in the parent company's accounts is obviously offset by a corresponding debit in the subsidiary's accounts.

The exceptional depreciation of £108,112 relates principally to plant and machinery of a subsidiary and has been provided against the possibility that, due to alteration in manufacturing techniques, some of the plant and machinery may prove obsolete.

Included in the report under 'Additional information' is a ten-year summary which, in the sphere of information outside the repetition of account figures, provides 'times covered' for ordinary dividend, pre-tax profit as a percentage return on net assets and the net asset value per share.

Since the accent is placed on the return on net assets in the 'Additional information' section, it is unfortunate that the balance sheet is not drawn up on a net asset basis.

PATERSON, ZOCHONIS & COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, 31st MAY, 1965

1964 £	1964 £		£	£	£
		CAPITAL:			
		Issued Capital of Paterson, Zochonis &			
	1,320,315	**Company Limited**			1,320,315
	2,457,053	**CAPITAL RESERVE**			2,470,031
		REVENUE RESERVE & SURPLUS:			
1,650,000		General		1,900,000	
217,166		Profit and Loss Account		212,363	
	1,867,166				2,112,363
	5,644,534				5,902,709
	58,939	**Minority Interest**			57,731
	136,960	**Reserve for Overseas Income Tax, 1966–67** ..			59,805
		CURRENT LIABILITIES AND PROVISIONS:			
208,618		Loans		177,589	
3,378,562		Sundry Creditors		2,852,440	
4,284,559		Owing to Bankers		4,790,033	
		Provisions:			
		Current United Kingdom and Overseas			
265,235		Taxation	485,316		
130,791		Staff Gratuities	158,370		
				643,686	
		Final Ordinary Dividend for the year to 31st			
28,297		May, 1965, as proposed by the Directors ..		34,898	
	8,296,062				8,498,646
	£14,136,495				£14,518,891

(See notes on page [83])

A. H. LOUPOS } Directors
P. A. SPOUDEAS }

1964 £	1964 £		£ At Valuation 31st May, 1961, plus subsequent additions at cost	£ Depreciation subsequent to 31st May, 1961	£
		FIXED ASSETS:			
		Properties in Africa, France and the United Kingdom:			
	952,370	Freehold Land	955,370	—	
	2,408,565	Buildings and Leasehold Properties	2,702,660	375,543	
			£3,658,030	£375,543	3,282,487
	160,927	**Furniture and Utensils in Africa, France and the United Kingdom**	161,134	—	
		Motor Vehicles, Marine Craft, Plant and Machinery, etc., in Africa, France and			
	280,805	**the United Kingdom**	574,692	367,160	
			£735,826	£367,160	368,666
	3,802,667				3,651,153
		Trade Investments:			
302,888		Shares (Unquoted) at Cost, less amounts written off (See note 4)		318,318	
140,917		Loans		171,081	
	443,805				489,399
	4,246,472				4,140,552
		CURRENT ASSETS:			
		Stock as taken and valued by Officials of the Companies at cost or lower:			
6,527,128		Merchandise etc.		6,699,346	
		Produce, including Stocks purchased on behalf of West African Produce Boards and in			
1,098,242		transit	413,912		
652,768		*Less:* Payments received on account ..	251,651		
445,474				162,261	
6,972,602				6,861,607	
1,738,819		Debtors, *less* Provision for Bad and Doubtful Debts		1,768,027	
—		U.K. Income Tax Recoverable		131,877	
800,000		Short-Term Deposits		1,358,539	
361,611		Cash in hand and Balances at Bankers ..		241,298	
	9,873,032				10,361,348
		Quoted Investments:			
	16,991	At cost *less* amount written off (Market Value £48,116 (1964, £26,519))			16,991
	£14,136,495				£14,518,891

PATERSON, ZOCHONIS & COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MAY, 1965

£	£		£	£
854,451		Profit on Trading for the Year		1,060,509
168,070		*Deduct:* Depreciation for the Year		165,651
686,381				894,858
	61,991	*Add:* Income from: Investments—Trade	65,360	
	1,893	—Quoted	3,046	
	38,573	Short-Term Deposits	47,946	
102,457				116,352
24		Transfer Fees		17
788,862				1,011,227
	10,066	*Deduct:* Loan Interest (gross)	8,958	
	275,061	Bank Overdraft Interest	314,825	
285,127				323,783
503,735		*Deduct:* Taxation, based on the profits for the year:—		687,444
		United Kingdom		
	—	Corporation Tax	52,500	
	25,024	Income Tax	(16,210)	
	29,000	Profits Tax	—	
	207,385	Overseas	295,070	
261,409				331,360
242,326		Net Profit		356,084
632		*Less:* Applicable to Minority Interests (1964 *Add*)		5,901
£242,958		Net Profit applicable to Shareholders of Parent Company ..		£350,183

Parent Company £	Subsidiary Companies £		Parent Company £	Subsidiary Companies £	TOTAL £
238,251	4,707	Net Revenue for the Year after taking into account dividends from Subsidiary Companies	218,950	131,233	350,183
(9,800)	(3,919)	*Add:* Profits and other adjustments relating to prior years (Note 4) (1964 deduct) ..	172,743	(171,057)	1,686
228,451	788		391,693	(39,824)	351,869
152,747	22,725	Balance brought forward, 31st May, 1964	168,860	48,306	217,166
£381,198	£23,513		£560,553	£8,482	£569,035
		Appropriated as follows:—			
25,538		Provision for Staff Gratuities (Note 3) ..	27,649		27,649
6,677		*Amount written off Investments and Shares in Subsidiary*			
1,571	2,111	Formation and Capitalisation expenses written off		1,242	1,242
107,000		General Reserve	250,000		250,000
	(26,904)	Capital Reserve (1964 transfer from)		925	925
		Dividends Paid, less tax			
13,475		5½% Cumulative First Preference Shares ..	13,200		13,200
9,567		6% Cumulative Second Preference Shares ..	9,371		9,371
20,213		Ordinary Shares – interim 5% (1964 5%) ..	19,387		19,387
		Dividend Proposed, less tax.			
28,297		Ordinary Shares – final of 9% (1964 7%) ..	34,898		34,898
168,860	48,306	Balance carried forward, 31st May, 1965 ..	206,048	6,315	212,363
		(See Notes on Page *[Opposite]*)			
£381,198	£23,513		£560,553	£8,482	£569,035

NOTES

on the Balance Sheet of Paterson, Zochonis & Co. Ltd. and on the Consolidated Balance Sheet.

1. The estimated amounts of outstanding contracts for capital expenditure at 31st May, were:—

	1964 £	1965 £
Parent Company	40,000	11,000
Consolidated Accounts	85,000	44,000

2. Foreign Current Assets and Liabilities have been converted to sterling at the exchange rates ruling at 31st May, 1965.

The amount included in the Revenue Reserve, £2,112,363 in the Consolidated Balance Sheet not currently remittable, is £70,859 (1964 £58,189).

3. No depreciation has been provided on Freehold Land nor upon certain categories of Furniture and Utensils, the cost of replacement of such Furniture and Utensils being charged in arriving at the profits of the Company and of the Group.

4. Trade Investments: Unquoted Shares

	As Balance Sheet 1964 £	As Balance Sheet 1965 £	Directors' Valuation 1964 £	Directors' Valuation 1965 £
Parent Company:	£288,944	£299,344	£503,000	£488,000
Group:	£302,888	£318,318	£516,800	£527,000

5. The Parent Company has guaranteed the Bank Overdraft of a Subsidiary Company to the extent of, but not exceeding, the sum of £200,000.

6. MOVEMENT OF RESERVES:

	Parent Company £	Group £
Capital Reserve:		
Balance 31st May, 1964	1,036,235	2,457,053
Add: Transfer from Profit and Loss Appropriation Account		925
Surplus on sale of Fixed Assets		8,649
Consolidation Adjustment arising from acquisition of Shares from Minority Interests		3,404
Balance 31st May, 1965	£1,036,235	£2,470,031
Revenue Reserve:		
Balance 31st May, 1964	1,650,000	1,650,000
Add: Tranfer from Profit and Loss Appropriation Account	250,000	250,000
Balance 31st May, 1965	£1,900,000	£1,900,000

NOTES

On the Consolidated Profit and Loss Account

	1964	1965
1. Directors' Emoluments.	£	£
For Management, including pension and life assurance premiums	56,962	68,467

2. U.K. Taxation.

In arriving at the Profit of the year, provision has been made on the basis that the Parent Company qualifies as an Overseas Trade Corporation. No provision has been made for U.K. taxation on the profits of the Overseas Subsidiaries, as liability, less appropriate Double Tax Relief, arises only when such profits are distributed as dividends. Corporation Tax where applicable has been provided at the rate of 35%.

3. Provision for Staff Gratuities.

The trading profit has been arrived at after charging gratuities, actually paid during the year to retiring staff.

The amount charged in the Profit and Loss Appropriation Account has been reduced accordingly.

4. Profits and Adjustments relating to prior years.

	Parent Company	Group
	£	£
Trading Profits applicable to prior years received during the year, less taxation applicable thereto	101,745	101,745
Taxation adjustments relating to prior years	73,774	(992)
Depreciation over-provided on Fixed Assets sold during the year	2,224	9,045
	177,743	109,798
Deduct: Exceptional Depreciation of Fixed Assets ..	5,000	108,112
	£172,743	£1,686

5. Depreciation.

An amount of £103,112 has been written off as exceptional depreciation as at 1st June, 1964 by a subsidiary company, which company has also changed the basis of arriving at the depreciation charge. These factors have resulted in the depreciation charge of £165,651 being £10,383 lower than it would otherwise have been.

CITY NOTES

THE current run of take-over developments – and to a lesser degree of new share placings and offers – have helped to put a thin veneer of respectability on the otherwise care-worn look of the stock-market. An average of 10,000 daily bargains marked in *The Stock Exchange Official List* is evidence of a volume of business which stays obstinately near the broking breadline.

There is, however, some sign of an investment inclination to switch out of fading equities and into shares with better 1966 prospects. If present conditions cultivate more thought on the part of the ordinary investor, then at least they will not be exactly wasted.

Even so, it remains difficult to look ahead over the market as a whole with any great degree of confidence, more particularly since current forecasts are for an even higher yield basis on fixed interest stocks. Industrial debenture borrowers are being squeezed on to a 7 per cent and even 7½ per cent borrowing basis and the present impression is that interest rates may be forced still higher.

If that is so then the equity yield basis, which some consider to look basically favourable, may not remain so for long. The investor waiting for lower equity prices may not have to wait much longer. The problem will be deciding when they are low enough.

* * * *

THE credit card is now clearly looming large in bank thinking. Westminster Bank's position as a strong minority shareholder in the Diners Club company, as the result of a partially thwarted take-over attempt, has been followed up by Barclays Bank's announcement of its intention to introduce its own 'Barclaycard' later this year.

Barclays has drawn on the expertise of the Bank of America for the basis of its new scheme which is designed to reduce the use of cash in shopping and other transactions. It will also reduce the volume of paper flowing through the banking system.

With Westminster and Barclays getting into the credit card business, it will be suprising if the other banks constituting the 'Big Five' do not make similar moves.

RATES AND PRICES

Closing prices, Tuesday, January 11th, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3 1963	4%
Mar. 8 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Nov. 5 ..	£5	9s	2·67*d*%	Dec. 10 ..	£5	9s	4·64*d*%
Nov. 12 ..	£5	9s	4·09*d*%	Dec. 17 ..	£5	10s	3·74*d*%
Nov. 19 ..	£5	9s	2·90*d*%	Dec. 23 ..	£5	10s	5·88*d*%
Nov. 26 ..	£5	7s	10·72*d*%	Dec. 31 ..	£5	10s	5·08*d*%
Dec. 3 ..	£5	7s	5·32*d*%	Jan. 7 ..	£5	10s	5·20*d*%

Money Rates

Day to day ..	4⅜–5⅝%	*Bank Bills*	
7 days	4¼–5½%	2 months ..	5⅞–5$\frac{15}{16}$%
Fine Trade Bills		3 months ..	5⅞–5$\frac{15}{16}$%
3 months ..	7–7½%	4 months ..	5⅞–5$\frac{15}{16}$%
4 months ..	7–7½%	6 months ..	5⅞–5$\frac{15}{16}$%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2·80$\frac{11}{32}$	Frankfurt ..	11·24$\frac{5}{32}$
Montreal ..	3·01$\frac{5}{32}$	Milan	1751½
Amsterdam ..	10·12¾	Oslo	20·02$\frac{23}{32}$
Brussels	139·24	Paris	13·74⅛
Copenhagen ..	19·31$\frac{3}{16}$	Zürich	12·12$\frac{3}{16}$

Gilt-edged

Consols 4% ..	60$\frac{3}{16}$	Funding 6% 1993 ..	94½
Consols 2½% ..	38⅞	Savings 3% 60–70 ..	85$\frac{9}{16}$
Conversion 3½% ..	53$\frac{15}{16}$	Savings 3% 65–75 ..	74⅛xd
Conversion 5% 1971	93	Treasury 6½% 1976	98⅞xd
Conversion 5¼% 1974	92$\frac{3}{16}$	Treasury 3½% 77–80	74⅜
Conversion 6% 1972	97$\frac{9}{16}$	Treasury 3½% 79–81	71⅜xd
Funding 3½% 99–04	59$\frac{3}{16}$	Treasury 5% 86–89	83
Funding 4% 60–90	92$\frac{11}{16}$	Treasury 5½% 08–12	86$\frac{7}{16}$
Funding 5¼% 78–80	88$\frac{3}{16}$	Treasury 2½% ..	38⅞
Funding 5½% 82–84	89¼	Victory 4%	96⅜
Funding 5¾% 87–91	91¼	War Loan 3½% ..	53$\frac{11}{16}$

The Institute of Chartered Accountants in England and Wales

Special and Ordinary Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, January 5th, 1966, there were present:

Mr Robert McNeil, President, in the Chair; Sir Henry Benson, C.B.E., Vice-President; Messrs J. Ainsworth, C.B.E., J. F. Allan, G. R. Appleyard, W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, C. J. M. Bennett, G. T. E. Chamberlain, D. A. Clarke, R. W. Cox, C. Croxton-Smith, W. G. Densem, S. Dixon, J. V. Eastwood, W. W. Fea, Sir Harold Gillett, Bt, M.C., Messrs J. Godfrey, G. G. G. Goult, L. C. Hawkins, C.B.E., J. S. Heaton, J. A. Jackson, A. W. John, O.B.E., H. O. Johnson, R. O. A. Keel, Sir William Lawson, C.B.E., Messrs R. G. Leach, C.B.E., R. B. Leech, M.B.E., T.D., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., R. P. Matthews, D. S. Morpeth, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, F. E. Price, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, R. G. Slack, D. Steele, A. G. Thomas, A. H. Walton, R. Walton, F. J. Weeks, E. F. G. Whinney, J. C. Montgomery Williams, R. P. Winter, C.B.E., M.C., T.D., E. K. Wright, Sir Richard Yeabsley, C.B.E.

Reminders in respect of subscriptions due

It was reported to the Council that, in the interests of economy, in future only one reminder in respect of subscriptions due will be sent to the members concerned.

Clients' moneys held by practising members

The Council approved the following statement for publication and inclusion in the next supplement to the *Members' Handbook* as a replacement of the present section P 2:

The House of Lords in the case of *Brown v. C.I.R.* ([1964] 3 All E.R. 119) reaffirmed the principle of law that any person who is in a fiduciary relationship with a client must not take any secret remuneration or any financial benefit not authorized by the law or by his contract or by the trust deed under which he acts. The Council of The Institute of Chartered Accountants in England and Wales has had under consideration the effects of this restatement of the law upon the arrangements made by practising members of the Institute for dealing with moneys held by them on behalf of clients, and makes the following statement for their guidance.

(*a*) Moneys received for a client should not be paid into members' own office bank accounts. One or more separate 'client' bank accounts should be maintained, into which should be paid all clients' moneys other than those which are immediately remitted to the client concerned or disposed of in accordance with his instructions.

(*b*) In the absence of express agreement to the contrary any interest received on a client's moneys (other than moneys held as stakeholder – see paragraph (*g*) below) should be accounted for to the client. If moneys belonging to more than one client are held in the same client bank account, any interest arising thereon should be apportioned among the clients concerned.

(*c*) Trust moneys should be paid into a separate bank account for the trust, except that if the size of a particular trust does not warrant the maintenance of a separate bank account the moneys may be paid into a client bank account.

(*d*) Bank accounts maintained for clients' moneys or for a trust should be suitably named or identified and appropriate notice of the nature of the account should be given to the bank concerned. Legal advice has been received to the effect that if this is done no question would arise of set-off by the bank against the member's other accounts or of sequestration by a trustee in bankruptcy.

(*e*) No payment to or for a client in excess of the balance standing to his credit should be made out of a bank account maintained for the moneys of more than one client.

(*f*) No charge should be made for the clerical work of operating client bank accounts without the agreement of the clients concerned.

(*g*) Money held by a member as stakeholder should be regarded as clients' money and should be paid into a separate bank account maintained for the purpose or into a client bank account. The position in law appears to be that such money does not belong to any specific client until the happening of the deciding event, and that there is therefore no legal requirement to account for any interest earned thereon up to the date of that event.

Accounting implications of the Redundancy Payments Act, 1965

The Council approved the following statement for publication:

The Council has considered the accounting implications of the Redundancy Payments Act, which came into effect on December 6th, 1965, particularly as regards the treatment for balance sheet purposes of an undertaking's contingent obligations to its employees.

In the Council's opinion provision need not as a general rule be made in financial accounts for potential liabilities under the Act unless events have occurred or decisions have been taken which will or are expected to require an undertaking to

make redundancy payments as defined by the Act.

Apart from any provision made for the actual or impending crystallization of obligations referred to above, the Council does not consider it necessary to show by way of note to the accounts the existence of a potential liability under the Act unless the circumstances are such that there is a reasonable likelihood that an undertaking may have to make redundancy payments of a material amount in excess of any sums recoverable from the Redundancy Fund established by the Act; such circumstances would include, for instance, proposals under consideration whose implementation would or might involve redundancies, or a financial situation in which the possibility of redundancies could not be disregarded.

Absence of paid cheques

The Council approved the following statement for publication:

The Council understands that certain banks which have previously made a routine practice of returning paid cheques to their customers propose to do so in future only on request. The Council has been assured by the Committee of London Clearing Bankers that its members have no present intention of so altering their procedures as to make paid cheques no longer available. If not returned as a matter of course, paid cheques will be returned on request or retained by the banks for a minimum period of six years, during which time they will continue to be available. Where paid cheques are likely to be required from time to time arrangements should be made with the branch bank concerned at the outset so that the relative vouchers can be segregated at the time of payment.

Summer courses

The Council authorized the distribution to all members of the Institute of a notice giving preliminary details of the summer courses to be held at Christ Church and Merton College, Oxford, from July 14th to 19th, and Trinity College, Cambridge, from September 14th to 18th.

Oxford Summer Course

The subjects and speakers at the Oxford course will be:

'The co-ordination of finance and management', Mr F. T. Hunter, F.C.A. (Robson, Morrow & Co).

'The present practice and modern developments in auditing in the United States of America', Mr Kirk Batzer, C.P.A. (Lybrand, Ross Bros & Montgomery).

'Some aspects of the corporation tax', Mr L. H. Clark, F.C.A. (Harmood-Banner, Cash, Stone & Mounsey).

There will be informal talks on Sunday, July 17th, by Mr A. F. Earle, PH.D., B.SC.(ECON.), Principal of The London Graduate School of Business Studies, and by Mr D. W. Hooper, M.A., F.C.A., the Institute's Technical Officer.

Cambridge Summer Course

Subjects and speakers at the Cambridge course will be:

'Improving the efficiency of the accountancy department and servicing management'. Mr A. P. Ravenhill F.C.A. (Administrative Controller, Fortes Holdings Ltd).

'The impact of the new tax structure on company financing'. (*Speaker to be announced*).

'The taxation of capital gains', Mr E. E. Ray, B.COM., F.C.A. (Spicer & Pegler).

Business sessions – May 18th, 1966

The Council authorized the distribution to all members of the Institute of a notice giving details of the business sessions to be held after the annual meeting on May 18th, 1966.

Subjects and speakers will be:

'The practising accountant and his smaller clients', Mr S. Edgcumbe, J.P., F.C.A. (Whitmarsh, Edgcumbe & Preedy); Mr J. G. Simpkins, F.C.A. (Nevill, Hovey, Smith & Co); Mr H. G. Sergeant, F.C.A. (Carlill, Burkinshaw & Ferguson).

'The Finance Bill, 1966', Mr Halmer Hudson, F.C.A. (with Arthur Andersen & Co); Mr B. G. Rose, F.C.A. (Neville Developments Ltd); Mr E. C. Meade, F.C.A. (Deloitte, Plender, Griffiths & Co).

'Changes in company law', Sir William Lawson, C.B.E., B.A., F.C.A. (Binder, Hamlyn & Co); Mr R. G. Leach, C.B.E., F.C.A. (Peat, Marwick, Mitchell & Co).

Visits to overseas accountancy bodies

It was reported that the President and Mr C. Evan-Jones (Secretary), accompanied by their wives, had attended the Accountantsdag of the Nederlands Instituut van Accountants in Amsterdam on October 16th, 1965.

It was also reported that Sir Thomas Robson and Mr P. Carrel (Under-Secretary), accompanied by their wives, had attended the Fifteenth Anniversary Celebrations of the Collège National des Experts Comptables de Belgique in Brussels from November 26th to 28th, 1965.

Union Européenne des Experts Comptables

It was reported that the President and Mr C. Evan-Jones (Secretary) had attended a meeting of the Executive Committee of U.E.C. in Amsterdam on October 15th, 1965. The Secretary had also attended a meeting of secretaries of member organizations of U.E.C. in Amsterdam on October 18th, 1965.

Sir Thomas Robson and Mr P. Carrel (Under-Secretary) attended a meeting of the Executive Committee of U.E.C. in Brussels on November 25th, 1965.

Sir Thomas Robson, Mr G. B. Pollard, Mr J. F. Greaves and Mr P. Carrel (Under-Secretary) attended a meeting of the Assembly of Delegates of U.E.C. in Brussels on November 26th, 1965.

The next meeting of the Executive Committee of U.E.C. will be held in London at the temporary offices of the Institute on Thursday, March 3rd, 1966.

Research project

The Council approved the following statement for publication:

The Council has pleasure in announcing that the Institute is collaborating with the Department of Education and Science in the conduct of a research project. The object is to examine the content and teaching methods for courses which aim to give the student a broad understanding of the principles and use of accounting in modern business but which are not designed for those intending to specialize in accountancy as such. A small Steering Committee has been set up to design the project in detail, advise on the appointment of a research fellow and generally to supervise the project until its completion. The Chairman of the Steering Committee is Mr A. H. Walton, F.C.A., Vice-Chairman of the Institute's

Education Committee, and the other members are:

Mr A. W. John, O.B.E., F.C.A., member of the Institute's Education Committee.

Dr C. E. S. Macrae, B.COM., F.S.A.A., Strathclyde University (nominated by Scottish Education Department).

Mr A. J. Shawcross, B.A., A.A.C.C.A., A.C.C.S., Principal, City of Westminster College.

Mr R. J. W. Stubbings, B.COM., F.C.A., Department of Education and Science and 'assessor' to the Institute's Education Committee.

An advertisement for the research fellowship is appearing in the professional Press. The fellowship will be tenable at the temporary offices of the Institute in Old Street, EC1.

Programme of teacher training courses – 1966 and 1967

The Council approved the following statement for publication:

The Education Committee is making arrangements in conjunction with Wolverhampton Technical Teachers' College for two courses for teachers of accounting subjects to be held at the college in 1966 as follows:

(a) Wednesday, July 6th (evening) until Sunday, July 10th (midday);

(b) Wednesday, September 7th (evening), until Sunday, September 11th (midday).

A third course will be held probably in London early in 1967.

These new courses have been arranged following the favourable response to those already held by the committee at Huddersfield Technical Training College last April and at London University Institute of Education last September. The Education Committee is conscious of the urgent need for more trained teachers of accounting and believes that short courses of this type can make a valuable contribution.

The courses will concentrate on teaching principles and method with reference to accounting subjects and will be designed both for those who are already teaching (full-time or part-time) on courses for articled clerks and also for those who are intending to teach on such courses.

Further particulars will be published as soon as available.

Examination questions – Finance Act, 1965

It was agreed that the following statement should be published in the report of the Council proceedings:

The Council has already stated that the earliest date at which questions arising out of the 1965 Finance Act, may be asked in examination papers will be May 1966.

In amplification of this statement it is now announced that the position in regard to the May 1966 examination and subsequent examinations in 1966 will be as follows:

(a) Questions involving corporation tax and capital gains taxes (short-term and long-term) will be confined to the 'Old' Final and to Part II of the 'New' Final examination only and will be limited to general principles;

(b) Questions on Case VII, Schedule D (short-term capital gains) will not therefore be asked in the Taxation I paper in Part I of the 'New' Final examination;

(c) There is no change in the position for the Intermediate examination, which remains as set out in note (ii) on page 46 of the current edition of the *General Information and Syllabus of Examinations* booklet.

This note reads as follows:

'Questions will *not* be set on taxation liability or its computation but candidates will be expected to have sufficient elementary knowledge to enable them to deal with taxation in accounts.'

(d) Questions on profits tax will not be set at any examinations in 1966.

This statement relates to the 1966 examinations only. A further statement dealing with the 1967 examinations will be published later this year.

Annual meeting with Union of Chartered Accountant Students' Societies Liaison Committee

The Council decided that the annual meeting between members of the Council and the Liaison Committee of the Union of Chartered Accountant Students' Societies be held in 1966 on March 4th.

The Council nominated eight members of the Council to attend.

Registration of articles

The Secretary reported the registration of 1,427 articles of clerkship during November and December, the total number since January 1st, 1965, being 3,623.

Admission to membership

The following was admitted to membership of the Institute:

Green, Godfrey, A.C.A., *a*1966; 28 Elm Avenue, Garden Village, Hull.

Fellowship

The Council acceded to applications from eight associates to become fellows under clause 6 of the supplemental Royal Charter.

One thousand, one hundred and seven associates became fellows on January 1st, 1966, in accordance with clause 6 of the supplemental Royal Charter.

F.S.A.A.

Sixty-one incorporated accountant members A.S.A.A. became F.S.A.A. on January 1st, 1966, in accordance with clause 7 of the supplemental Royal Charter.

Members commencing to practise

The Council received notice that the following members had commenced to practise:

Baker, Leslie William, A.C.A., *a*1965; Whitmarsh, Hore & Chadder, 25 Broad Street, Launceston, Cornwall.

Baskerville, George Edward, A.C.A., *a*1965; Newton & Baskerville, 69 Bridge Street, Manchester 3.

Beattie, Ronald John, A.C.A., *a*1961; 3 Hedgerley Gardens, Greenford, Middx.

Bottomley, Terence, A.C.A., *a*1962; George T. Holden & Co, 20 Chapel Street, Leeds Road, Bradford 1.

Brown, David Dean, A.C.A., *a*1961; 8 Loxley Road, Stratford-upon-Avon.

Bust, Philip, A.C.A., *a*1963; E. Churchill Mallett & Co, St Mary's Chambers, Lowgate, Hull.

Calvelli-Adorno, Ludwig Tycho, F.C.A., *a*1949; Price Waterhouse & Co, Alter Fischmarkt 11, Hamburg 11, Germany.

Champion, John Frederick, A.C.A., *a*1959; Lingard, Wilson & Co, Arkwright House, Parsonage Gardens, Manchester 3.

Crosland, John Michael Cowen, A.C.A., *a*1962; Smith & Garton, 23 John William Street, Huddersfield.

§Easton, Eric John, A.S.A.A., *a*1964; Cooper Brothers & Co, 8th Floor,

Norwich Union House, 92 Commissioner Street, Johannesburg.

Fletcher, Derek Frank, A.C.A., *a*1956; ††Whinney, Murray & Co, Yakeem Buildings, P.O. Box 140, Bahrain.

Goodall, John Anthony, A.C.A., *a*1965; 57 Harlyn Drive, Pinner, Middx.

Hopewell, Lionel Charles, A.C.A., *a*1961; *Turquand, Youngs & Co, Monte Esquinza 23, Madrid 4.

Jordan, Michael James, A.C.A., *a*1960; Thompson, Little & Co, 22 Broad Street, Hereford.

Lever, Jonathan Braham, LL.B., A.C.A., *a*1962; J. B. Lever & Co, Courtlets House, 38 King Street West, Manchester 3.

Lotery, Arthur Mayer, M.A., F.C.A., *a*1934; 46 Fairacres, Roehampton Lane, London SW15.

Lutfi, Madhat Izzat, B.COM., A.C.A., *a*1962; †Whinney, Murray & Co, 19A/12/21 Rikhaita, P.O. Box 108, Baghdad.

Markus, Hugh Brian, B.SC.(ECON.), F.C.A., *aS*1950; *Price Waterhouse & Co, Schaferstrasse 2, Düsseldorf 10, Germany.

Martindale, Kenneth Horace Ralph, A.C.A., *a*1965; Stanley N. Fry & Co, 49 London Wall, London EC2.

May, Robert Aron, A.C.A., *a*1961; Hallett Laughlin Associates, 38 Finsbury Square, London EC2.

Monjack, Philip, A.C.A., *a*1965; Leonard Curtis & Co, 13 Wimpole Street, London W1.

O'Sullivan, Niall John, A.C.A., *a*1960; Peters, Elsworthy & Moore, Norwich Union Buildings, Downing Street, Cambridge.

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a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

§ Means 'incorporated accountant member'.

Firms not marked †, †† or * are composed wholly of chartered accountant members of the Institute.

† Against the name of a firm indicates that the firm though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

†† Against the name of a firm indicates that the firm includes an incorporated accountant member of this Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Parkinson, Derek Henry, F.C.A., *a*1951; *Price Waterhouse & Co, 1331 Marine Building, Vancouver, B.C., Canada.

Patel, Manubhai Umedbhai, A.C.A., *a*1964; M. U. Patel & Co, 17B Dryden Chambers, 119 Oxford Street, London W1.

Phelps, Peter William, A.C.A., *a*1957; Asbury, Riddell & Co, 28 Corve Street, Ludlow, Salop.

Raja, Anil Devchand, A.C.A., *a*1965; Anil Raja & Co, Raja Building, Bazaar Street, P.O. Box 30590, Nairobi.

Reid, Graham Alexander, A.C.A., *a*1962; Nicholass, Reid, Corney & Co, 3/4 Clement's Inn, London WC2.

Rome, John Jack, A.C.A., *a*1965; John Rome & Co, 19 Hadley Court, Cazenov Road, London N16.

Sanderson, Robert Geoffrey, A.C.A., *a*1959; *Peat, Marwick, Mitchell & Co, 20 rue Louis-le-Grand, Paris 2e, France.

Tearle, John George, A.C.A., *a*1958; W. M. Bayliss, Sons & Co, Elsinore House, 43 Buckingham Street, Aylesbury, Bucks.

Walker, George Ronald, A.C.A., *a*1962; Perryman, Walker & Co, National Provincial Bank Chambers, 48 Church Street, West Hartlepool.

Ward, Herbert Eric, F.C.A., *aS*1953; †Gill & Johnson, Crusader House, Portal Avenue, Box 866, Kampala, Uganda.

West, Colin Haden, F.C.A., *a*1954; *Price Waterhouse & Co, Edificio Espana, Avenida Jose Antonio 88, Madrid 13.

Wilkinson, Alec John, A.C.A., *a*1961; Cooper Brothers & Co, P.O. Box 1411, Ralli House, Nyerere Avenue, Mombasa.

Young, Stuart, A.C.A., *a*1964; S. Young & Co, 12A Cliff Road, Newquay.

Re-admission to membership

Subject to payment of the amounts required by the Council, two former members of the Institute were re-admitted to membership under clause 23 of the supplemental Royal Charter.

It was reported to the Council that the following re-admission made at the Council meeting on December 1st, 1965, subject to payment of the amount required, had become effective:

Tough, Robert MacGillivray, F.S.A.A., *aS*1936; 2 Bransgore House, Bransgore, Christchurch, Hants.

Change of name

The Secretary reported that the following change of name has been made in the Institute's records:

Eric Charles John Wormald to Eric John Charles Wormald.

Resignations

The Council accepted the resignations from membership of the Institute of:

Allwood, Robert, F.C.A., *a*1932; Houghton Hall Farm, Tarporley, Cheshire.

Dick, Alastair Burnett Innes, F.C.A., *a*1935; 34 Park Avenue, Solihull, Warwicks.

Doogood, Robert Gordon, F.C.A., *a*1930; Doogood & Co, Unity Chambers, 17 Constitution Hill, Birmingham 19.

Hayter, Charles, F.C.A., *a*1908; 43 Belmont Close, Cockfosters, Barnet, Herts.

Pallister, Sidney Walter, F.C.A., *aS*1920; 242 North Western Avenue, Los Angeles, California, U.S.A.

Pemberton, Warwick Geoffrey Travers, F.C.A., *a*1907; Messrs Rowley, Pemberton & Co, 9 Bishopsgate, London EC2.

Stewart, Leslie Charles, F.C.A., *aS*1920; 10 Lucerne Road, Orpington, Kent.

Sykes, James Michael, A.C.A., *a*1957; 97 Oakdale Drive, Heald Green, Cheadle, Cheshire.

Threlfall, Thomas Clifford, F.C.A., *a*1932; c/o A.G.D.4, Ministry of Health, 151 Great Titchfield Street, London W1.

Deaths of members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Richard Wilson Bartlett, D.L., J.P., F.C.A., Chepstow, Mon, a member of the Council of The Society of Incorporated Accountants from 1929 until 1957 and President of the Society 1935–37.
,, Richard William Abbotts, M.C., F.C.A., Burton-on-Trent.
,, Thomas Richard Townsend Bucknill, F.C.A., London.
,, Reginald Frederick Gervase Burrows, F.C.A., Nottingham.
,, Charles Chipchase, F.C.A., Barnard Castle, Co. Durham.
,, Frederick Herbert Cooper Christmas, F.C.A., Edgware.
,, John Hemingway Clegg, F.C.A., Bury.
,, Edwin Walter Collier, F.C.A., London.
,, Henry Eagle, F.C.A., Ilkley.
,, Reginald Herbert Epps, M.B.E., M.M., F.C.A., Enfield.
,, Ebenezer Fisher, F.C.A., Birmingham.
,, Allen Edward Ford, O.B.E., F.C.A., London.
,, Francis Harold Harman, F.C.A., Oxted.
,, Fred Jeffrey Harrison, F.C.A., Bradford.
,, George Robert Hopwood, F.C.A., Enfield.
,, Maurice Knaggs, F.C.A., Gloucester.

Mr David Maxwell Laing, A.C.A., Geneva.
,, Frederick William Lewis, B.COM., F.C.A., Coventry.
,, Walter Hindle Marsden, F.C.A., Blackburn.
,, John Mather, F.C.A., Manchester.
,, William George Morgan, F.C.A., Newport, Mon.
,, John Jackson Need, F.C.A., Wolverhampton.
,, Marshall Nicholas, F.C.A., Folkestone.
,, Cyril William Norton, F.C.A., Eastbourne.
,, Henry Gott Parkinson, F.C.A., Poulton-le-Fylde, Lancs.

Mr Alan Adam Robertson, F.C.A., London.
,, Frank Ernest Scarborough, F.S.A.A., Slough.
,, Henry Haynes Sheard, F.C.A., Blackpool.
,, Wilfred Cabourn Smith, D.S.O., M.C., F.C.A., London.
,, Geoffrey Charles Moffatt Spry, F.C.A., Surbiton.
,, Dennis Bridges Stevens, F.C.A., London.
,, William Alfred Styler, F.C.A., Stratford-upon-Avon.
,, Godfrey Clode Toulmin, F.C.A., Brighton.
,, William Arthur Welch, B.A., F.C.A., Hong Kong.

Institute staff

The Council decided:

(1) that Mr N. E. Bruckland, B.A., an Assistant Secretary who joined the staff on January 6th, 1955, be appointed an Under-Secretary with effect from January 1st, 1966; and

(2) that Mr A. C. Dunlop, M.C., an Assistant Secretary who joined the staff on October 1st, 1962, be appointed an Under-Secretary with effect from January 1st, 1966.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS BAKER, TODMAN & CO, Chartered Accountants, of Canada House, 4 & 5 Norfolk Street, London WC2, announce the amalgamation of their practice with that of Messrs ROOKE, LANE & CO, Chartered Accountants, of 2 & 3 Norfolk Street, London WC2, as from April 1st, 1966. The joint practice will be carried on under the name of BAKER, ROOKE & CO, at 2 & 3 and Canada House, 4 & 5 Norfolk Street, London WC2.

MESSRS BALDWIN & SON, Chartered Accountants, announce that Mr P. S. SAVAGE, A.C.A., who is a partner in the Sunningdale firm, has been admitted to partnership in the Brighton firm. Mr B. M. MALCOLM-SMITH, F.C.A., formerly a senior member of the staff, has been admitted to partnership in the Sunningdale firm.

MESSRS BEEVER & STRUTHERS, Chartered Accountants, of 28 Booth Street, Manchester 2, announce that DAVID PARRY, B.SC., A.C.A., ANTHONY SHAW, B.A.(COM.), A.C.A., and DAVID T. WILKINSON, LL.B., A.C.A., have been admitted into partnership with effect from December 1st, 1965.

MESSRS BINDER, HAMLYN & CO, Chartered Accountants, of 30 St Ann Street, Manchester 2, announce that as from January 1st, 1966, Mr H. A. J. BAKER, F.C.A., became a partner in their firm at Manchester and Bradford. Mr BAKER has been a member of the staff in London and in Manchester for about thirty years, of which fifteen have been spent in the North.

MESSRS CROWTHER BROTHERS, Chartered Accountants, of Savings Bank Buildings, Hotel Street, Bolton, announce the retirement of Mr CYRIL RICHARDSON BELLIS, F.C.A., from the partnership on December 31st, 1965, after having been a partner for more than twenty-five years. Mr BELLIS will continue his association with the firm in a consultative capacity.

The former partners of Messrs DOWN & CO, Chartered Accountants, of 22 City Road, London EC1, announce that: (i) the partnership was dissolved by mutual consent on December 31st, 1965; (ii) Messrs A. N. HARPER, F.C.A., I. W. FAWKNER, F.C.A., and C. A. M. COXE, A.C.A., are practising in partnership under the style of DOWN, FAWKNER & CO, at 22 City Road, London EC1. (Telephone Monarch 0046); (iii) Mr T. W. PRIDEAUX, F.C.A., is practising separately on his own account, and is arranging to move to offices at 5 Lloyds Avenue, London EC3; and (iv) Mr A. J. GERRISH, F.C.A., has accepted an appointment in commerce.

MESSRS A. F. FERGUSON & CO, Pakistan, announce that as from October 31st, 1965, Mr J. P. BRAY, O.B.E., F.C.A., has ceased to be an active partner.

MESSRS FUTCHER, HEAD, SMITH & CO, Chartered Accountants, of Broad Street House, 54 Old Broad Street, EC2, announce that they have taken into partnership from January 1st, 1966, Mr R. A. HILL, F.C.A., and Miss B. A. KEMP, A.C.A., who have been with the firm for some years.

MESSRS HOURSTON, MACFARLANE & CO, Chartered Accountants, of 5 St Vincent Place, Glasgow, announce that subsequent to the death on November 7th, 1965, of Mr EBEN. E. MILLER, C.A., who was associated with them for more than forty years and who was a partner in the firm from January 1st, 1935, further changes in the constitution of the firm have been made. Mr IAN ALEXANDER CALDER, C.A., who was associated with them for more than twenty-five years and who was a partner since January 1st, 1949, retired for health reasons on December 31st, 1965, and Mr HUGH ROSS GRAHAM, C.A., son of the senior partner, has been assumed into partnership as from January 1st, 1966. The firm name remains the same.

MESSRS LEEDS BARLOW & CO, Chartered Accountants, of 66 Alma Street, Luton, announce that their practice is now being carried on in conjunction with that of Messrs NEVILLE RUSSELL & CO, Chartered Accountants, of 11 Poultry, London EC2.

MESSRS LONSDALE & MARSH (incorporating FRANK W. LYTHGOE & CO),

Chartered Accountants, of 17 Harrington Street, Liverpool 2, announce that they have taken into partnership Mr DUNCAN JAMES RIDEHALGH, A.C.A., and Mr JOHN ANTONY BUSH, A.C.A., who have been members of the staff for some time. The business will continue under the present style.

MESSRS JOHN A. MAYNE & FITCH, Chartered Accountants, of Scottish Provident Buildings, 2 Wellington Place, Belfast 1, announce that their practice is now being carried on in conjunction with that of Messrs NEVILLE RUSSELL & CO, Chartered Accountants, of 11 Poultry, London EC2.

MESSRS MACINTYRE HUDSON & CO, Chartered Accountants, of Craig's Court House, 25 Whitehall, London SW1, announce that they have opened an office at 10 Longport Street, Canterbury, Kent, in association with Messrs HAWKINS & WALE, Chartered Accountants, of that address, and that Mr H. M. HAWKINS, F.C.A., and Mr L. J. JARRETT, F.C.A., have been admitted as partners in the Canterbury firm.

MESSRS NUTTALL, ROYLE & BRITTAIN, Chartered Accountants, announce that as from January 1st, 1966, the practices formerly under the styles of NUTTALL & KNOWLES and L. BENNETT ROYLE & CO, have been amalgamated, and that Mr C. E. NUTTALL, F.C.A., and Mr L. ROYLE, F.C.A., have been joined in partnership by Mr J. J. M. BRITTAIN, A.C.A., to form the new firm. The practice will be carried on from the addresses of the two former firms.

MESSRS ROSE, GLUCK & CO, Chartered Accountants, of London EC4, announce that Mr HARRY COHEN, A.C.A., who has been associated with the firm for many years, has been admitted into partnership. The name of the firm remains unchanged.

MESSRS C. NEVILLE RUSSELL & CO, Chartered Accountants, of 11 Poultry, London EC2, announce that Mr H. L. BARLOW, F.C.A., and Mr G. F. MACAULAY, A.C.A., have joined the partnership. Mr Barlow has been carrying on practice at Luton for many years under the style of LEEDS BARLOW & CO and Mr MACAULAY has been a member of the London staff for some time. The practice will in future be carried on under the style of NEVILLE RUSSELL & CO.

MESSRS E. A. SHOCK & CO, Chartered Accountants, of 67/68 Jermyn Street, London SW1, announce that Mr RAYMOND TERRY ARNOLD, A.C.A., who has been with the firm for many years, has been admitted into partnership with effect from January 1st, 1966.

MESSRS SOMERSET COWPER & CO, Chartered Accountants, of 199 Piccadilly, London W1, announce that they have taken into partnership from January 1st, 1966, Mr A. P. MAYSTON, A.C.A., who has been with the firm for some years.

MESSRS SPIRO, SARGANT & CO, Chartered Accountants, and Messrs CHAMPNESS & SARGANT, Chartered Accountants, of Argyle House, 29/31 Euston Road, London NW1, announce that Mr JOSEPH LOUIS LICHMAN, F.C.A. and Mr DAVID LESLIE UFLAND, A.C.A., have been admitted as partners with effect from January 1st, 1966.

MESSRS STAMMERS, WILLIAMSON & CO, Chartered Accountants, of 24 Gloucester Place, Brighton 1, announce that their practice is now being carried on in conjunction with that of Messrs NEVILLE RUSSELL & CO, Chartered Accountants, of 11 Poultry, London EC2. An office has also been opened at 17 North Street, Guildford, under the style of NEVILLE RUSSELL & CO.

MESSRS L. W. STONE, WATSON & CO, Chartered Accountants, of Coleridge Chambers, 177 Corporation Street, Birmingham 4, announce that Mr E. W. BOWKETT, A.C.A., who has been associated with the firm for many years was admitted into partnership on January 1st, last. The firm name will remain unchanged.

MESSRS THORNTON BAKER & CO, Chartered Accountants (London), announce that Mr DAVID ARTHUR LLEWELLYN, A.C.A., retired from the partnership on December 31st, 1965, to take up his appointment as joint managing director of the Real and Leasehold Group.

MESSRS THORNTON BAKER & CO, Chartered Accountants, announce that Messrs ANTHONY BREAKWELL, B.A., A.C.A. (Coventry), LESLIE BREATHWICK, A.C.A. (Leicester), ANTHONY JAMES CAREY-WOOD, A.C.A. (London), and and Miss BETTY IDA HICKS, A.C.A. (Thame), were admitted into partnership on January 1st, 1966.

MESSRS WENN, TOWNSEND & CO, Chartered Accountants, of Oxford, Abingdon and Cirencester, announce that they have admitted into partnership as from January 1st, 1966, Mr FRANK J. WARE, A.C.A.

MESSRS WILLIAM DUNCAN & CO, Chartered Accountants, of Glasgow and Ayr, announce that they have assumed Mr WILLIAM JAMES MARTIN MOWAT, C.A., as a partner with effect from January 1st, 1966. Mr MOWAT served his apprenticeship with and has since been an assistant in the offices of the firm.

MESSRS WOOD & CO, Chartered Accountants, of 1 Old Burlington Street, London W1, announce that Mr M. H. GRAVENSTEDE, F.C.A., and Mr J. GRAHAM MATTHEWS, A.C.A., have been admitted into partnership. The firm's name remains unchanged.

Appointments

Mr F. Bedder, F.C.A., who has retired as secretary of The House of Lerose Ltd, has been appointed a local director of Gordon Spriggs & Co Ltd, in addition to his position as managing director of W. Barton & Sons Ltd, both companies being subsidiaries of The House of Lerose.

Mr Patrick Ernest Cooper, A.C.A., has been appointed a managing director of Clive Discount Co Ltd as from January 1st.

Mr Robert Gold, F.C.A., has been elected to the Court of Common Council of the City of London as one of the representatives of Castle Baynard Ward. Mr Gold, who is in practice in the City, is a Liveryman of the Worshipful Company of Fanmakers, and for the last two years has been the honorary secretary of the Music Section of the City Livery Club.

Mr David B. Lees, A.C.A., has been appointed group financial controller of Handley Page Ltd, a new post following upon the aviation company's expanding interests in civil and domestic engineering.

Mr W. H. Mosley Isle, F.C.A., has been appointed a director of Parkland Manufacturing Co Ltd.

Mr A. L. Pitman, F.C.A., has been appointed secretary of The Norvic Shoe Company Ltd.

Mr James R. Porter, F.C.A., Controller, Mobil North & South-east Europe Inc. has been appointed controller, Mobil Europe Inc as from January 1st.

Mr W. L. B. Shankland, C.A., has been appointed general manager of the Wiring and General Cables Division of British Insulated Callender's Cables Ltd as from January 1st.

CENSUSES OF PRODUCTION ADVISORY COMMITTEE

Chartered Accountants Appointed Members

Mr R. D. R. Bateman, M.B.E., F.C.A., director and chief accountant, Bass, Ratcliff & Gretton Ltd, Mr E. R. Beecher, F.A.C.C.A., secretary, John Laing & Son Ltd, and Mr A. B. Lucas, F.C.A., a partner in Price Waterhouse & Co, of London, have been appointed by the President of the Board of Trade as members of the Censuses of Production Advisory Committee to advise on the preparation of forms and instructions for the census of production to be taken in 1969 in respect of the year 1968, and for the four subsequent annual censuses.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

President's Dinner

The President of The Institute of Cost and Works Accountants, Mr Harry Hodgson, F.C.A., F.C.W.A., gave a dinner party in the Members' Room at the House of Commons last Wednesday. The company totalled over one hundred, and among those present were:

Mr G. L. Barker, F.A.C.C.A. (*President, The Association of Certified and Corporate Accountants*); Sir Stanley Bell, O.B.E., J.P. (*Chairman and Managing Director, Astley Industrial Trust Ltd*); Messrs A. S. Boyd, F.C.A. (*Vice-President, The Institute of Chartered Accountants in Ireland*); R. Browning, C.B.E., M.A., LL.B., C.A. (*President, The Institute of Chartered Accountants of Scotland*); Sir Sydney Caine, K.C.M.G. (*Principal, The London School of Economics and Political Science*; Sir Hugh Chance, C.B.E., D.L. (*Chance Brothers Ltd*); Mr J. E. H. Davies, M.B.E., F.C.A. (*Director-General, Confederation of British Industry*); Sir Maurice Dean, K.C.B., K.C.M.G. (*Permanent Secretary, Ministry of Technology*); Sir James Dunnett, K.C.B., C.M.G. (*Permanent Secretary, Ministry of Labour*); Captain A. R. Glen, C.B.E., D.S.C., R.N.R.(RTD) (*Chairman, Export Council for Europe*); Mr H. Keeling, F.I.M.T.A. (*President, The Institute of Municipal Treasurers and Accountants*); The Rt Hon. The Earl of Longford (*Leader of the House of Lords*); Messrs R. McNeil, F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*); A. G. Norman, D.F.C. (*Chairman, The De La Rue Co Ltd*); Sir Eric Roll, K.C.M.G., C.B. (*Permanent Under-Secretary of State, Department of Economic Affairs*); Dr D. H. Sharp (*Technical Director, Confederation of British Industry*); Sir William Strath, K.C.B. (*Chairman, British Aluminium Co Ltd*).

There were no formal speeches.

SIXTY YEARS IN PRACTICE

Mr Stephen Fletcher, M.B.E., F.C.A., senior partner in the firm of Fletcher, Fletcher & Layton, Chartered Accountants, of Salisbury, completed his sixtieth year in practice with the firm on December 31st.

Mr Fletcher, who was admitted to membership of the Institute in 1904, is now in his 87th year. He continues to take an active part in his firm.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The next evening meeting of the London and District Society of Chartered Accountants will be held next Thursday at the Little Ship Club, Bell Wharf Lane, Upper Thames Street, London EC4, at 5.45 p.m., when Mr A. E. M. Harbottle, F.C.A., will speak on 'Running a computer service bureau from the office of a practising accountant'.

Members are reminded of the luncheon meeting on Tuesday next, details of which were announced last week.

ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The annual dinner for members of The Accountants' Christian Fellowship, their ladies and friends, has been arranged for Friday, January 21st, at 6.30 for 7 p.m. at the Bonnington Hotel, Southampton Row, London WC1. It will be an informal social occasion and the guest speaker will be Professor Norman Anderson, O.B.E., M.A., LL.D., Professor of Oriental Laws in the University of London. Tickets (price 30s) may be obtained from the honorary treasurer of the Fellowship, Mr W. W. Mortimer, F.C.A., 38 Chancery Lane, London WC2.

CERTIFIED ACCOUNTANTS' CONFERENCE ON THE FINANCE ACT, 1965

The third of a series of four conferences on the Finance Act, 1965, organized by The Association of Certified and Corporate Accountants, was held at the Connaught Rooms, London WC1, last Saturday.

The proceedings were opened by the President of the Association, Mr G. L. Barker, F.A.C.C.A., who welcomed the members present and introduced Mr Phillip Shelbourne, a partner in Messrs N. M. Rothschild & Sons, who was the principal speaker. In the course of a well received and informative address, Mr Shelbourne dealt with many aspects of the new legislation relating to close companies, and how this new legislation has affected the procedures and practice of earlier legislation.

After a short break for coffee, members, in syndicates of ten, worked on a number of practical examples of the calculations necessary to ascertain the advantage or otherwise of incorporating a small business, as well as problems of definitions. These examples were prepared by the Association's taxation committee. At the end of the period suggested solutions to the problems were circulated to all those present. The last part of the morning was devoted to questions submitted in advance by those attending the conference. The questions were answered by a panel of members of the taxation committee.

After lunch, Mr G. M. L. Skingley, A.A.C.C.A., gave two short talks on 'Definitions' and 'Shortfalls', and Mr D. R. Dawes, A.A.C.C.A., followed with a short talk on 'Directors' remuneration, surtax direction and miscellaneous matters relating to close companies'. The syndicates then spent a period working on another series of practical problems, for which suggested solutions were circulated at the end of the session. These problems were concerned with the recognition of close companies and the assessments to tax that may be raised on those companies. The conference closed with a further question period in which members of the panel briefly answered questions submitted in writing during the morning session.

The final conference in the series will be held on Saturday, January 29th, and will be devoted to capital gains tax. There is a limited number of tickets available, price three guineas each, and any person who would like to take part is requested to write to the Secretary of the Association at 22 Bedford Square, London WC1, as soon as possible.

DEFENCE BONDS: CONVERSION OFFERS

The Treasury has announced that conversion offers will be made to holders of the following Defence Bonds maturing on May 1st, 1966: 4 per cent Defence Bonds purchased in the period November 2nd, 1955, to April 30th, 1956, and repayable at £103 per cent; 4 per cent Defence Bonds (Conversion Issue) issued on May 1st, 1956, and repayable at £103 per cent; 4½ per cent Defence Bonds purchased on May 1st, 1956, and repayable at £105 per cent.

These holders will be invited to exchange their holdings into 5 per cent National Development Bonds (Third Conversion Issue) on May 1st, 1966.

The terms of the new Third Conversion Issue Bonds will be the same as those of the 5 per cent National Development Bonds (Second Issue) currently on sale except that interest will be payable on May 1st and November 1st. The lists of acceptances of the conversion offers will be closed on January 28th.

COURSES FOR MANAGEMENT

'Discount the cash flow', 'Discounted cash flow in practice', 'Tune up your cost system', and 'Design for better annual reports', are the titles of three one-day courses due to be held in London on February 1st, 2nd and 3rd respectively. The last course will be repeated in Manchester on March 9th, and again in London on March 24th.

The first course will set out to explain in simple terms the principal techniques for evaluating capital projects and will include numerous worked examples and illustrations. The second is a more advanced course than the first and among the topics to be discussed are treatment of working capital, replacement calculations, and leasing of plant, vehicles and equipment. The final course, intended for those concerned with layout and presentation of reports will be fully documented and will include a survey of company reports which have won *The Accountant* Annual Awards.

Further particulars regarding the above courses are obtainable from Dr James M. S. Risk, B.COM., PH.D., C.A., F.C.I.S., F.C.W.A., F.B.I.M., Albany Courtyard, Piccadilly, London W1.

REVENUE PAPER

Hilary Sittings, 1966

The following cases are down for hearing during the Hilary Sittings, 1966:

HOUSE OF LORDS

Coathew Investments Ltd *v.* C.I.R.
C.I.R. *v.* Parker.

COURT OF APPEAL

Soul *v.* C.I.R.
C.I.R. *v.* Tomlinson.
C.I.R. *v.* Park Investment Ltd.
C.I.R. *v.* Cleary.
C.I.R. *v.* Perren.
Newlin *v.* Woods.
Pilkington *v.* Randall.
Provan *v.* Scott.
Lawson *v.* Hosemaster Machine Co Ltd.

HIGH COURT (Chancery Division)

John Mills Productions Ltd (in liquidation) *v.* Mathias.
John Mills Productions Ltd (in liquidation) *v.* C.I.R.
C.I.R. *v.* John Mills Productions Ltd (in liquidation).
Rogers *v.* Longsdon.
Thomson *v.* White.
Princes Investments Ltd, Princes Realisations Ltd, Envoy Investments Ltd *v.* C.I.R.
Clore *v.* C.I.R.
Weiss *v.* Naylor.
Ellis *v.* Lucas.
Shadford *v.* H. Fairweather & Co Ltd.
Thompson *v.* Bagnall.
Macsaga Investment Co Ltd *v.* Lupton.
Haywards Heath Housing Society Ltd *v.* Hewison.
Haywards Heath Housing Society Ltd *v.* C.I.R.
Evans *v.* Harrison.
Murray *v.* Imperial Chemical Industries Ltd.
Campbell and Another (Trustees of the Davies's Educational Trust) *v.* C.I.R.
E. K. Wilson & Sons Ltd *v.* Ellis.
London & Thames Haven Oil Wharves Ltd *v.* Attwooll.
Conn *v.* Robins Bros Ltd.
Eames *v.* Stepnell Properties Ltd.
Cowan *v.* Bowie.
Cowan *v.* White.
Parkstone Estates Ltd *v.* Blair.
Petrofina (Gt Britain) Ltd *v.* Gray.
Heather *v.* Michaels.
Scott *v.* Ricketts.
Hurley *v.* Young.
C.I.R. *v.* Educational Grants Association Ltd.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

Students' Residential Course

A second week-end residential course for final students has been arranged by the Education Committee of the Manchester Society of Chartered Accountants at Lyme Hall, near Disley, from January 22nd to 23rd.

The subjects and lecturers will be as follows: 'Executorship law', by Mr S. G. Maurice, Barrister-at-law; 'Executorship accounts', by Mr G. N. Elliott, A.C.A., and 'Consolidated accounts,' by Mr V. S. Hockley, B.COM., C.A., F.A.C.C.A.

The fee for the course is £4, and will cover accommodation, board and tuition. Students will assemble at 10 a.m. on Saturday, January 22nd, and will disperse on the Sunday evening. In order to facilitate tuition, the numbers will be limited.

NO GAINS TAX IN MALAYSIA

The note on proposals for capital gains taxation in Malaysia in 'The Accounting World' in our last issue was, as indicated, based on a previously published article in the *Bulletin of International Fiscal Documentation*. It was expected that the measure would be included in the recently presented 1966 Budget, but it has now been reported that the Finance Minister, Tan Fiew Sin, has stated that no capital gains tax is being introduced at present. The word 'introduced' in the title of our note should, of course, have read 'proposed'.

THE ACCOUNTANT

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ON OTHER PAGES

Investment Incentives

THE key to economic growth is investment; any measure which stimulates investment is desirable in the national interest. It follows, therefore, that the Government's proposals for new cash grants are in the national interest. This is the type of simple problem on which students of elementary logic test their capacity for clear thinking but, on the evidence of Monday's White Paper, *Investment Incentives* (Cmnd 2874), neither the PRESIDENT OF THE BOARD OF TRADE nor the MINISTER FOR ECONOMIC AFFAIRS would fully pass the test.

The need for more investment is not disputed: Britain's post-war progress in this respect compares unfavourably with that of its competitors. The question is: what sort of investment is needed? Some types of investment – even within the range of manufacturing equipment – will serve the immediate national interest better than others. For this reason, presumably, the distributive trades will not benefit from the new grants, but to follow this line of thinking to its logical conclusion, modern labour-saving equipment is more desirable than conventional plant.

The evidence of the recent Confederation of British Industries' memorandum to the Department of Economic Affairs demonstrated widespread support for cash grants, although the C.B.I. committee did not advocate their introduction. If the Government wishes merely to encourage smaller firms to invest more, there are less wasteful means of achieving this objective than indiscriminate cash 'hand-outs' to all and sundry.

Where the Government has chosen to use the weapon of discrimination, i.e. in favour of areas of relatively high employment, it has first reduced slightly the amount of grant and widened, not narrowed, the areas aimed to be most in need of help. Yet recent thinking on regional planning, as evidenced by the early National Economic Development Council reports, stresses the encouragement of regional growth points rather than blanketing entire regions with the taxpayer's money.

The Government is doubtless right in its statement that although the individual grants are no greater than before, they will generate new demand for capital equipment but 'more' does not necessarily mean 'better' and, even if allowance is made for the existing slack in some branches of the capital goods industries, the additional pressure on skilled engineering resources is not likely to be of immediate help to the country's most urgent need, i.e. the balance of payments. Some details of the scheme are given on page 97 and we shall return to the subject next week.

Alternative Policy?

THE Government's hopes of obtaining the voluntary co-operation of the trade unions for its incomes policy have so far proved groundless. Mr GUNTER's warning that the alternative to an effective incomes policy was increased unemployment merely reflects in blunter terms the analysis of the economic situation in the New Year issue of this journal. If the defence of sterling is to remain the primary objective of Government economic policy, then deflation is inevitable. This view is already implicit in the widespread expectation of a severe Budget in April.

The consequences for the economy of a renewed phase of 'stop-go' are likely to be serious; it will certainly evoke strong criticism from within the Labour Party. Yet what are the alternatives? Advocates of Socialist economic planning are emphatic that the maintenance of a high level of employment and output must be an overriding priority. It can be achieved, they argue, by an extension of existing import controls, by the imposition of statutory price controls in the case of key products and, if necessary, the Government should not hesitate to intervene purposefully in any sector of the economy which, in its view, is not observing the 'national interest'

Such a policy of economic *dirigisme* – regardless of whether or not it will prove effective – is not likely to appeal to either industry or the business community. Nor, on the other hand, will renewed economic insecurity and reduced earnings, inherent in a deflationary policy, appeal to the mass of the electorate. In short, even if the present economic situation is in the not-so-long-run untenable, the Government's only apparent alternative is politically unacceptable if it is to prove effective. Must it therefore be assumed that there is no alternative to the dismal recurrence of sterling crises and 'stop-go' policies, with Britain's living standards growing at only a fraction of the rate enjoyed by the more dynamic nations?

These are the issues which should dominate pre-election debate. It would be optimistic to believe that this will be the case, for the intricacies of economic policy do not make good material for the hustings. A major contribution to the current debate is, however, provided in a new Hobart Paper (No. 39) entitled *Growth through Competition* (Institute of Economic Affairs, *7s 6d* net). Under the pen-name of 'Spartacus', the author (described as an economist with practical experience of economic planning) reviews the attempts at planning in post-war Britain and, in more detail, the National Plan.

His views on the state of Britain's economy, and still less his criticisms of recent attempts to plan the rate of growth, will not be altogether new to readers of this journal. Likewise, virtually all his proposals for reform and the rehabilitation of the economy have been outlined before in these pages. Nevertheless, for the professional man concerned with the future development of the U.K. economy, this journalistic *tour de force* deserves to be read.

First, sterling should be allowed to 'float'. With the present fixed exchange parity for sterling and the utterly inadequate reserves, Britain is virtually in the same position as she was on the gold standard. She is driven to adapt continually her internal economic policy, not to the needs of the nation, but to the intermittent pressures on sterling which are themselves a consequence of her lack of competitiveness in world markets. By permitting the sterling exchange rate to float, the self-correcting mechanism for a balance of payments deficit will be brought into operation.

Secondly, it is necessary to reduce the pressure of demand on resources by operating the economy, not at over 98 per cent employment, but at something less. If such a measure is to prove acceptable in a democratic society, then the fear of unemployment and its consequences must be reduced. This, the author avers, can be done by re-casting the National Insurance scheme. He wants all employees to cover a basic minimum part of their income needs in event of sickness or unemployment by private insurance. This would then be supplemented generously by the State from funds provided, in the main, by an employers' contribution – much on the lines of the European social security schemes. At the same time, adequate provision will have to be made for the transfer of pension rights, as well as for re-training.

The proposals put forward could hardly be implemented overnight. There are other problems, too: how would a 'floating' exchange rate fit into the current international regulation of monetary affairs? How will it be possible to persuade the trade union members of the need for a greater measure of job mobility? Many will contend that personal security is preferable to rapid material gain. Nor is it possible to predict the impact of unrestricted access to the British market to all-comers. However, if only the public will begin to think about the issues which this Hobart Paper elucidates so readably, the future might not look quite so depressing.

CAPITAL GAINS TAX

Trust Property – III

WE discussed on January 1st, the capital gains which are deemed to arise in respect of an individual's free estate when he dies. Those provisions of section 24 of the Finance Act, 1965, impose duty only on the excess of the aggregate gains over £5,000. This £5,000 exemption limit is cut down where the individual has already had relief under section 34 in respect of the disposal of business assets on retirement.

Now it may be that the section 24 relief in respect of free estate will not be used up, owing to the absence of the necessary amount of notional gains. Section 25 (5) makes this unused relief available to the trustees of a settlement who pay capital gains tax out of the trust assets because of the individual's death. It is a necessary condition of this section 24 (5) relief that gains accrue to the trustees on a disposal of trust property deemed to be effected on the date of the individual's death, and that the deemed disposal is under either section 25 (3) (another person becoming absolutely entitled) or section 25 (4) (termination of a life interest in possession) or otherwise in consequence of the death.

These gains are aggregated and they attract tax only to the extent to which they exceed the unused section 24 relief. In arriving at the aggregate, any allowable loss must first be deducted (section 25 (5) (*c*) (ii)). It will be recalled that where trust assets are deemed to be disposed of on the termination of a life interest, under section 25 (4), then a subsequent termination within the next fifteen years is not to be deemed a disposal, but instead the termination of the fifteen years operates section 25 (4). If gains are deemed to accrue on that occasion, then the relief provided by section 25 (5) is to apply in relation to the individual whose death occurred within the fifteen-year interval (section 25 (5) (*b*)).

So far we have assumed that only one set of trustees will be affected by the death. However, he may have had interests in two or more separate settlements. In these circumstances the section 25 (5) relief is apportioned among the different bodies of trustees. The appropriate proportion is arrived at not by reference to the deemed capital gains of each body, but by reference to the values of the settled property which each body is deemed to dispose of. It would have been more logical and fair to apportion the relief by reference to the respective capital gains of the different trusts.

In certain circumstances, a person who becomes absolutely entitled to trust property is credited with an allowable loss which he can set off against his own capital gains. The loss must be a loss which has 'accrued' to the trustees in respect of that property, or in respect of property which that property represents, and which cannot be deducted from the trustees' own gains (being gains accruing in the same assessment year but before the beneficiary becomes absolutely entitled) (section 25 (8)). The loss incurred by the trustee need not have been incurred in the same year. For instance, the trustees may have sold property at a loss three years before, which loss has been carried forward. The proceeds of sale may have been invested in new property, which later becomes the absolute property of the beneficiary. The loss is then passed to him for relief.

Just as the benefit of a trustee's allowable loss can be transferred to the beneficiary taking the property, so can the trustee's liability for capital gains tax. This can happen in the circumstances set out in section 25 (9). The three conditions of this imposition of liability are:

(*a*) tax assessed on the trustees is not paid within six months of its becoming payable by the trustees; and

(*b*) before or after the expiration of this six months the asset (or the proceeds of its sale) in respect of which the liability arose is transferred to a person; and

(*c*) the transferee in (*b*) is absolutely entitled as against the trustees.

Those conditions being satisfied, the Revenue can charge the person (in the name of the trustees) to capital gains tax. The tax is not to exceed tax on the chargeable gain. If only part of the asset (or proceeds) goes to the person, then his liability is cut down accordingly. The Revenue have to make the assessment, if at all, within two years after the tax became due from the trustees.

The above provision in section 25 (9) for charging a beneficiary with tax on disposals (or deemed disposals) made by the trustees can apply only where there is some default by the trustees. There is, however, provision in section 42 for charging a beneficiary in respect of trust gains where there is no default by the trustees. The section applies only where there is a foreign element in the trust. It will be recalled that a person is not

chargeable if he is neither resident nor ordinarily resident in the United Kingdom (section 20 (4)). Echoing this, section 42 (1) makes it clear that the section cannot apply except where, *inter alia*, 'the trustees are not resident and not ordinarily resident in the United Kingdom'. These words have to be read subject to section 25 (1) which we discussed on January 8th.

If a body of trustees is accordingly not resident or ordinarily resident, then it cannot be charged to capital gains tax on its disposals or deemed disposals. Section 42 provides for a charge on the beneficiary instead, if either of the two following conditions is satisfied:

(*a*) the settlor (or one of them) '*is* domiciled and either (i) resident or (ii) ordinarily resident in the United Kingdom'; or

(*b*) the settlor (or one of them) *was* domiciled and either resident or ordinarily resident when he made his settlement.

Whereas 'settlement' in section 25 is not defined, in section 42 it has the (much wider) meaning given by Chapter III of Part XVIII of the Income Tax Act, 1952 (section 42 (7)). 'Settlor' has a correspondingly wide meaning.

The first step under section 42 is to find out whether the trustees would have been chargeable on some specific capital gains had they been domiciled and either resident or ordinarily resident (on the tests applied by section 25 (1)). If so, any 'beneficiary' (undefined) who is domiciled and either resident or ordinarily resident in the appropriate year of assessment is to be treated for capital gains tax purposes as if an apportioned part of the gain had accrued to him in that year.

The next, and more difficult step, is to say how much of the trustees' gain is to be apportioned to him. Section 42 (2) provides that the gain is to be apportioned:

> 'in such manner as is just and reasonable between persons having interests in the settled property,' (defined on section 411 (2) lines) 'whether the interest be a life interest or an interest in reversion, and so that the chargeable gain is apportioned, as near as may be, according to the respective values of those interests, disregarding in the case of a defeasible interest the possibility of defeasance.'

Paragraph (*a*) of section 42 (3) deals with the case where a beneficiary has received discretionary payments out of income in any of the three 'years' (presumably assessment years) ending with that in which the chargeable gain accrues. For the purposes of apportionment of that gain he is deemed to have an interest equal to an 'annuity' of the average annual amount of the payments so received by him in the three years. The paragraph does not deign to specify for what period the annuity is supposed to subsist. One may guess that a life annuity is intended; but the words would equally allow a perpetual annuity, which would hardly be a 'just and reasonable' way of apportioning the burden. If the discretionary object has other interests under the settlement, presumably these too must be taken into account.

Paragraph (*b*) of section 42 (3) deals with a so-called 'capital payment' made out of the settled property after the capital gain accrued, and made by virtue of a discretion. If the payment 'represents' the chargeable gain, wholly or in part, and the recipient is domiciled and resident or ordinarily resident, then he is treated as if the gain (or the appropriate part) had accrued to him at the time he received the capital payment. However, paragraph (*b*) operates only to the extent that the trustees' gain has not already been attributed to some other domiciled and resident person. No guidance is given as to what constitutes a capital payment.

Some of the more blatant absurdities of applying section 42 (2) to beneficiaries are removed by section 42 (4) but only where the settlement was made before April 6th, 1965. This date applies not so much to the settlement as a whole, as to the bringing in of specific property. Like its predecessor, subsection (4) is divided into paragraphs (*a*) and (*b*). Paragraph (*a*) exempts an income beneficiary who has no power (with or without the consent of someone else) to obtain any part of the capital.

Paragraph (*b*) brings relief to a reversioner. Where any part of a gain is apportioned to him under section 42 (2) in respect of his interest in reversion, then he may postpone payment of the tax until his reversion falls in, or he disposes of it, unless he has power to 'obtain' the settled property before that time.

Suppose that a beneficiary is chargeable under section 42 (2) but the trustees themselves pay the tax. Section 42 (5) says this payment is not to be treated 'for the purposes of taxation' as a payment to the beneficiary. Where the trustees have a discretion to make payments to the beneficiary they can help him by paying his section 42 liability for him, rather than by making a direct payment to him for that purpose.

Section 42 has no operation 'in relation to a loss accruing to the trustees' (section 42 (6)). Presumably this merely means that a beneficiary is not to be allowed to obtain relief for it against his own personal gains. No doubt any losses incurred by the trustees can be set off in arriving at the gains which would be chargeable on them if they were both domiciled and resident.

So far we have dealt with property actually forming part of a settled fund. But an equitable interest in such a fund is itself an asset. We will deal separately with disposals and acquisitions of interests in a trust, such as reversions and life interests as opposed to the underlying assets of the trust.

(*Concluded.*)

Current Affairs

Colour Inset

WE have pleasure in presenting with this issue a colour reproduction of the new presidential badge of the North West Society of Chartered Accountants. The reproduction is, of course, larger than the actual size.

At the top of the badge appears the red rose of Lancashire and at the bottom is a ram's head representing Westmorland. The female figure and scales of justice in the centre are, of course, taken from the Arms of The Institute of Chartered Accountants in England and Wales, with the addition of laurel sprays on either side of the figure for decorative purposes. In the scrolls across the shoulders of the badge wheat ears are shown, indicating agriculture.

The badge is made in hall-marked nine carat gold and is hand carved.

The New Investment Grants

WE comment on another page on the system of investment grants outlined in last Monday's White Paper, *Investment Incentives* (Cmnd. 2874, H.M.S.O. 1*s* 6*d*). The grants are to supersede the existing investment allowances on buildings, plant and machinery as from midnight on January 16th, 1966. Legislation is to be introduced before the Budget to empower the Board of Trade to make the grants. Arrangements for submitted claims will be announced later.

The following table from the White Paper compares the general application of the new system with the existing system in the manufacturing and extractive industries. Special treatment is to be applied to ships, vehicles (including aircraft), computers and capital investment in scientific research.

SYSTEMS COMPARED

GENERAL APPLICATION

	Grants	**Taxation Allowances[1]**	
	Per cent	*Investment per cent*	*Initial per cent*
Existing System			
National			
New plant and machinery	—	30	10
Second-hand plant and machinery	—	—	30
New industrial buildings and structures ..	—	15	5
Development Districts			
Plant and machinery for industrial undertakings			
New	10[2]	30	Free depreciation[4]
Second-hand	10[2]	—	30
Other plant and machinery			
New	—	30	10
Second-hand	—	—	30
New buildings and structures			
Industrial ..	25[2]	15	5
Non-industrial ..	25[2]	—	—
New System			
National			
Plant and machinery			
Qualifying for investment grants ..	20	—	—
Not qualifying (includes second-hand)	—	—	30
New industrial buildings and structures ..	—	—	15
Development Areas			
Plant and machinery ..			
Qualifying for investment grants ..	40	—	—
Not qualifying (includes second-hand)	—	—	30
New buildings and structures			
Industrial	25[2] or 35[3]	—	15
Non-industrial ..	25[2] or 35[3]	—	—

[1] Apart from those assets which qualify for free depreciation or 100 per cent write off in the first year, annual allowances are given at varying rates for both plant and machinery and industrial buildings. Where grants are paid, annual allowances will be based on the balance of the capital expenditure incurred.

[2] These grants are conditional on an adequate provision of employment.

[3] The 35 per cent rate of building grant, which is also conditional on employment being provided, will be given to certain new undertakings where the Board of Trade consider that the problems involved justify additional assistance.

[4] 'Free depreciation' means that the taxpayer can claim depreciation allowances for tax purposes at whatever rate suits him instead of at the rates prescribed under the ordinary rules.

Chartered Secretaries' New President

LIEUT-COL F. W. McGUINNESS, T.D., F.C.A., F.C.I.S., secretary of International Distillers & Vintners Ltd, has been elected President of the Chartered Institute of Secretaries for 1966.

Born in 1901 and educated at Glasgow High School and Birkenhead School, Col McGuinness was articled in 1919 to Harmood-Banner & Son, of Liverpool (now Harmood-Banner, Cash, Stone & Mounsey), and was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1925. He became an associate of the Chartered Institute of Secretaries a year later and was elected a fellow in 1953. A member of the Council of the Chartered Secretaries since 1956, he has served on nearly all of its committees.

After gaining business experience as assistant accountant in the trustee department of Martins Bank Ltd, of Liverpool, Col McGuinness joined Wm. Henderson & Sons Ltd, also of Liverpool, in 1927, first as accountant and office manager and later as secretary. He was appointed accountant of Gilbeys Ltd in 1946 and secretary in 1952, a position he continued to occupy on the formation of his present company.

Since 1922, when he joined the Liverpool Scottish, Col McGuinness has had a distinguished record with the Territorial Army. He was promoted Lieut-Col in 1938 and during the war served in several capacities in the Army until 1945.

Bankers' Views

NOT least by virtue of the key role of the banks in the national economy, the annual addresses of their chairmen have invariably attracted public attention – more especially when they have been critical of the trend of the national economy. Sir Cuthbert Clegg, T.D., of Martins Bank, opened this year's series last week by rejecting the views of the Incomes and Prices Review Board on bank salaries. He defends the employers' award of 1964 on the obvious grounds that 'to secure the right sort of people, attractive salaries must be offered to combat the heavy competition from all quarters' including, he might well have added, the public sector. In his review a day later, Mr John Thompson, of Barclays, contented himself with the observation that disagreements on such matters were to be expected. Of more interest was his statement that if the demands for longer opening hours were to be met, Barclays would need some fourteen thousand additional staff to meet the needs of shift-working.

Both chairmen discuss the role of the computer as far as it affects their organizations and its implications for both customers and staff. Mr Thompson reviews the proposed credit-card system, while Sir Cuthbert queried whether in view of the comprehensive cheque and credit system there was any necessity for the proposed Post Office giro system.

In his review of the present state of the economy, from which he derives little satisfaction, Sir Cuthbert concludes that 'unless a permanent and substantial improvement in our trading strength is achieved, we face a continuation of economic restrictions until we are left far behind in the international economic scene . . .'.

Mr Thompson restricts his criticisms to the effects on the smaller firm of the periodic phases of credit restraint. He stresses that from such businesses often comes the initiative and new ideas upon which economic growth depends. In contrast, he observes, controls merely eliminate growth and competition.

Education for Management

THE second report of the United Kingdom Advisory Council on Education for Management, published last week, reviews the structure of management education and considers more especially the role of the technical colleges in that structure. The committee believes that the work of such colleges will lean mainly towards the applied approach, but that this should not preclude courses with a good theoretical content. Their greatest strength, states the report, lies in their close contacts with firms in their own areas. For such reasons the demands made upon such colleges will continue to be very varied.

Since it is becoming increasingly clear that part-time courses will be the main methods of teaching, the colleges must continue to develop these courses. The report notes with satisfaction the low wastage rates in such courses and the satisfactory pass rates among the examinees for the various college diplomas.

Of greater importance to the future of the accountancy profession is the increasing number of students working in technical colleges for their professional qualifications. The report remarks on the need to widen such courses of training in order that students may appreciate their role within the framework of the larger organizations in which they will work. Special courses to meet these needs are to be evolved by small specialist committees.

Writing in the new (Winter 1965) issue of *Scientific Business* on the theme of education for management, Mr Derek Pugh, of the new technological university at Aston, outlines the core subjects of future management courses. These comprise electronic data processing, statistical and mathematical techniques in decision theory and, last but not least, group meetings to increase

the awareness of embryonic and current managers of the importance of the personal role in their working lives. To meet these varied but essential requirements, all the current methods of teaching from formal lectures to case study seminars, as well as the newer techniques of group dynamics and simulation methods, are needed.

Rail Trouble

THE report by the Prices and Incomes Board on railwaymen's pay has had the expected angry reception from the National Union of Railwaymen.

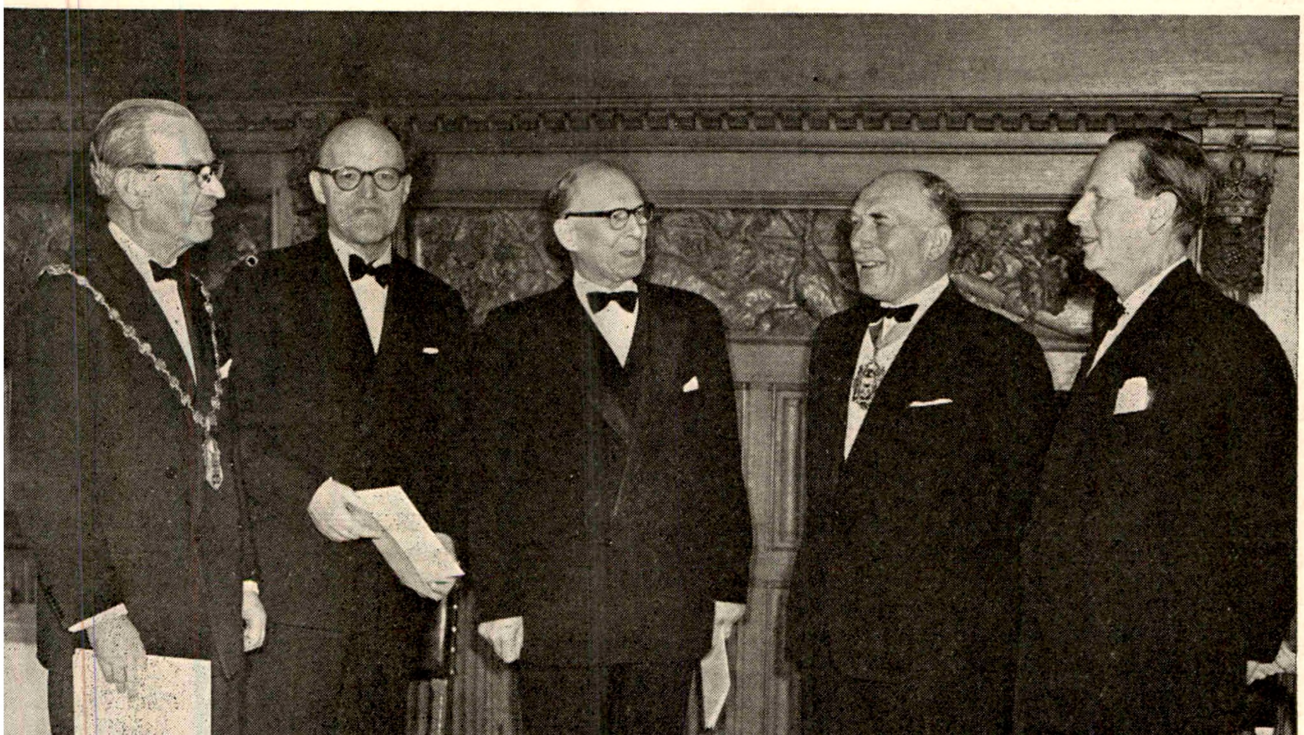
The Board turns down any claim for a further immediate increase in railwaymen's pay, although it recommends an immediate increase of 1½ per cent for clerical workers. The report criticises the Guillebaud principle by which railway wages have been kept in line with other comparable industries since 1960 by saying that, while accepting the comparability in a wide sense among wages, there is a danger that such comparisons could be inflationary, particularly as a large number of Government industrial workers have their pay derived in part from the basic rates of railway workers.

The Board goes on to recommend that the Government should decide and publish a realistic annual target for the reduction and elimination of the railways' working deficit and should instruct the Railways Board to conduct its affairs commercially leaving it to the Government to issue instructions about maintaining non-economic services. The report goes on to say that the test of the railwaymen's good intentions on railway productivity will be their reaction to the liner train system for fast freight services. A rebuke is given to the engineering workers in British Railways workshops for failing to implement agreements on work study negotiated at national level.

The Board says that the taxpayer should benefit from the gains from productivity agreements since he has been subsidizing railway wages and should be relieved of the burden of the railway working deficit by 1970 according to the National Plan.

On the limited subject of wage increases the Board thinks that railwaymen's wages in conciliation and workshop grades have kept pace with earnings generally in the last five years. The latest offer by the management is equivalent altogether to an increase in earnings of 6½ to 7 per cent and no further adjustment is recommended. Present pension arrangements for wage grades are considered inadequate. A forty-hour week is recommended for introduction only if accompanied by flexibility in the planning of hours worked.

Not surprisingly the British Railways Board has given a more cordial reception to the report than has the National Union of Railwaymen; The Associated Society of Locomotive Engineers and Firemen has so far held its fire. The Department of Economic Affairs has contented itself with a guarded general statement.



I.C.W.A. Dinner at House of Commons. Mr H. Hodgson, F.C.A., F.C.W.A., President of The Institute of Cost and Works Accountants (*second from right*), with four of the principal guests at the President's Dinner held at the House of Commons on January 12th. *Left to right:* The Mayor of the City of Westminter, Alderman Sir Charles Norton, M.B.E., M.C.; The Rt Hon. the Earl of Longford, Leader of the House of Lords; The Rt Hon. the Chairman of the Greater London Council, Councillor Sir Harold Shearman, J.P., and Mr W. T. Wells, Q.C., M.P.

Parliamentary Questions

THE President of the Board of Trade is to be asked in the Commons, after the Christmas recess, why he has decided not to include provisions for additional disclosure of directors' share dealings in the forthcoming Company Law Reform Bill. This question has been tabled by Mr Bruce-Gardyne (Conservative, South Angus) on January 27th.

On February 1st, a proposal is to be put to the Prime Minister by Sir Richard Nugent (Conservative, Guildford) that, 'in view of the growing uncertainty in the economic field', he should take action to combine the Treasury and the Department of Economic Affairs into one Ministry.

Mr George Brown, Minister for Economic Affairs, is to be asked by Mr Terence Higgins (Conservative, Worthing) on February 3rd to give information showing what percentage increases are forecast by his department for the next six months in wages and salaries, prices and in gross national product.

This is My Life

by An Industrious Accountant

THE engineer in charge of new construction in our building complex is in fact relatively young, and reports to the deputy-chairman as his immediate boss. But whatever he lacks in years he makes up for in self-assurance; we have numerous arguments. Facts and figures usually serve to buttress the viewpoint of the accountants, but one of the basic axioms of modern life is that money means nothing to our engineer. Three-eighths of an inch more or less in a steel girder has him tearing his curly hair, but £10,000 outside his budget estimate doesn't ruffle him. 'That's only money', he says complacently, to the fury of the cost men.

We didn't have much trouble with him over the new wing, which being detached except for a covered way was a lump-sum job. We just paid monthly on architects' certificates certified by the engineer. True, he got slightly confused with the retention moneys and lost two insulation invoices and a big credit note for cement overcharged, but one expects that sort of thing. The real fun came when the directors asked him why the overrun? 'Escalation', he said shortly. 'Labour productivity below forecast man-hour ratios time-wise.'

At this stage he produced curved graphs of performance by cumulative weeks and blinded his hearers with science. He wouldn't have got away with it normally, of course, but his boss, the deputy-chairman, had a guilty conscience about the overrun also, and short-circuited the discussion whenever possible.

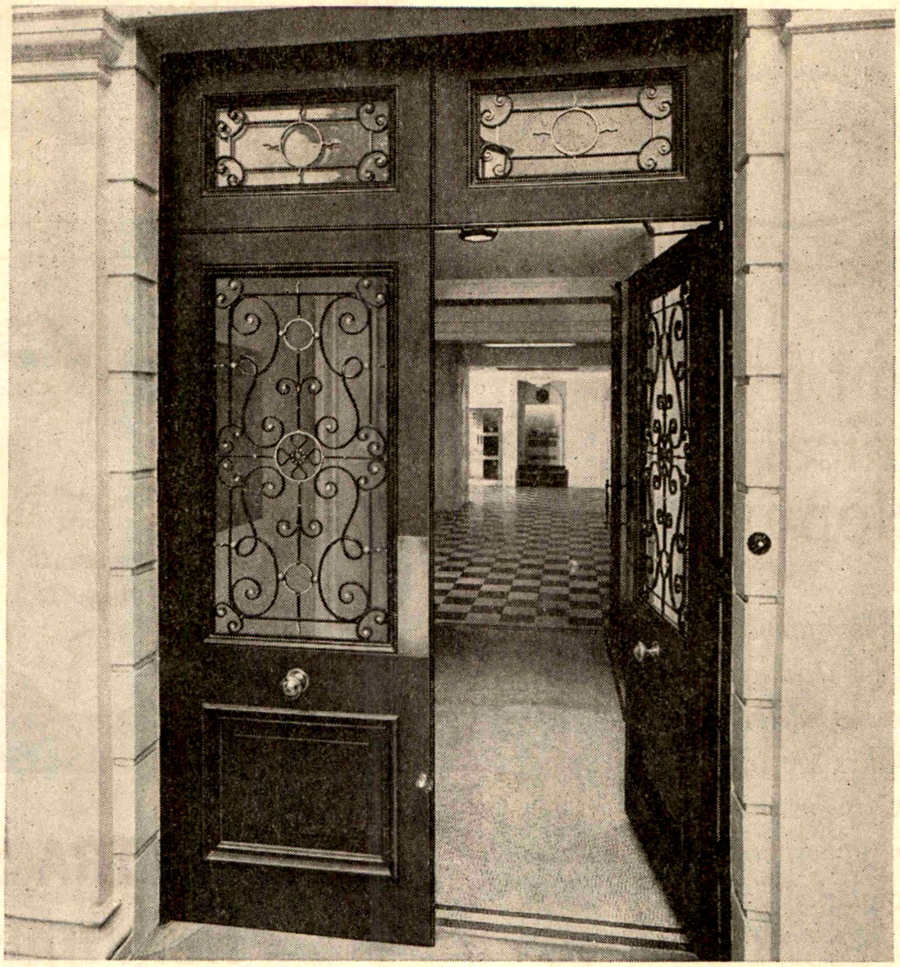
The latest extension was a cost-plus operation, by contrast, so figures suddenly became of vital importance. We did the job on a target-cost build up; in other words, the incentive to the contractor to beat his original approximate target estimate stemmed from his right to claim one-third of the saving as his bonus. The engineer thought highly of this latest gimmick, but it had its disadvantages.

In the first place the contractor padded his estimates. 'Natch', said the engineer loftily, bending his considerable talents to tearing out the padding ruthlessly. With eagle eye he scanned the sub-contractors' figures; those builders' office overheads not directly deriving from the job were axed as fast; the target estimate came gradually down.

The first faint signs of discontent, like Hampden muttering in Buckinghamshire about ship money wrongs, were heard as the extension progressed. The cost was higher than anticipated. Bad weather early meant frantic and costly overtime later to meet the time schedule; slow deliveries from contractors synchronized with an unexpected defective wall to induce an undignified wrangle about chargeable extras. The contractor became grumpy; somewhere in his small back room his eggheads had miscalculated; charges and target looked like meeting. *Our* cost section predicted no bonus; that's why *his* cost section was in trouble.

When cost looked like exceeding estimate, the deputy-chairman turned on the heat to save his reputation. The engineer took the hint. 'Can't charge that stairway against the estimate, old chap,' he urged our cost accountant with persuasive charm. 'We had planned it as a separate item months ago. Nor the lift-shaft, either; strictly speaking, it's a replacement to be charged against revenue, I should think, like the bulk of the lighting fixtures?' Costs, adamant in his rectitude against intimidation, faltered visibly under the new cajoling approach. The actual cost diminished simultaneously, in our asset records if not in our maintenance accounts.

Salt was rubbed in the wound when the engineer plumed himself on doing this skullduggery primarily to oblige the accounts department, which he claimed was always pressing him to save tax by pushing doubtful charges into maintenance costs. Having to thank him for his kindness was really the last straw.



Acknowledgement of Time-barred Debts

by W. H. D. WINDER, M.A., LL.M.

'Statutes of limitations do have their virtues. They prevent stale claims. They preserve a person from possibly being victimized by claims said to relate to time so ancient in history that the defendant may lack the material to controvert them. There are times when the statute of limitations can be made a weapon of unfair power, particularly in a case where, as here, there is no doubt at all – indeed, it is unchallenged – that the enjoyment of the loans was had by the person in whose shoes the defendant is now standing'.

ONE of the counter-weapons which is sometimes available to resist the exercise of unfair power by a debtor who insists on his strict legal rights is an 'acknowledgement' of indebtedness on his part. The above quotation is an extract from the judgment of Mr Justice Edmund Davies in the case of *Dungate v. Dungate* ([1965] 3 All E.R. 393) in which he had to consider whether an acknowledgement of a loan had, in fact, been made in terms sufficient to satisfy statutory requirements. The judgment was upheld on appeal ([1965] 3 All E.R. 818).

If an acknowledgement is sufficient to satisfy the Limitation Act, 1939, time will run from the date of the acknowledgement and not from the date of accrual of the right of action. Hence it does not matter from the creditor's point of view if the statutory period of six years (within which he must normally sue) has already expired before the debtor has made his acknowledgement. The creditor has the benefit of a new period of six years running from the latter date. The acknowledgement must be in writing and signed by the person making the acknowledgement. If it is, then section 23 (4) of the Limitation Act, 1939, operates. It provides that:

'Where any right of action has accrued to recover any debt or other liquidated pecuniary claim, or any claim to the personal estate of a deceased person or to any share or interest therein, and the person liable or accountable therefor acknowledges the claim or makes any payment in respect thereof, the right shall be deemed to have accrued on and not before the date of the acknowledgement or last payment'.

The Act does not lay down any particular form which an acknowledgement must take. An informal statement in a letter may be quite sufficient. There is no need, for example, for it to be stamped or to have been given for fresh valuable consideration. The operative acknowledgement in the case of *Dungate v. Dungate* was in a letter, although certain signed certificates of deduction of income tax were also relied on.

The facts were that, between October 1953 and November 1957, the plaintiff creditor lent various sums of money to his brother, the first loan of £500 being to the brother and the brother's partner jointly at interest of 5 per cent, and the others to the brother free of interest. Each payment was evidenced by a document or cheque. The brother died in May 1963. In October 1964, the plaintiff issued a writ against the brother's widow as administratrix of his estate, claiming the outstanding balance of the sums lent; the particulars of claim, after itemizing the individual loans, set out the total £970, less repaid £397, balance £573. No reference was made in the pleadings in the action to certain repayments and payments of interest which had been made from time to time. The case was not therefore concerned with repayment of part of the debt as a method of preventing time running against the creditor.

During the years 1953 to 1956, the brother had signed certificates of deduction of income tax in respect of payments of interest on the first loan as 'loan interest'. On February 23rd, 1962, the brother wrote a letter to the plaintiff saying, among other things, 'keep a check on totals and amounts I owe you and we will have account now and then. . . . Sorry I cannot do you a cheque now'. The defendant administratrix pleaded that the plaintiff's claim was statute barred.

Both the trial judge (Edmund Davies, J.) and subsequently the Court of Appeal, held that the letter was sufficient acknowledgement of indebtedness within section 23 (4) of the Limitation Act, 1939, and judgment was given for the plaintiff.

Amount of debt not stated

The contents of the letter did not refer to the amount of the debt owing at the time nor, indeed, was any sum expressly mentioned after the debt was incurred. It has, however, been established by previous decisions that it is immaterial that the amount of the debt is not expressed in the acknowledgement. *Halsbury's Laws of England* (third edition, vol. 24, p. 300) cites authorities for this state of the law. Provided that there has been an acknowledgement in general terms, oral evidence is admissible to identify the acknowledgement with the debt and to ascertain the amount of the debt.

Oral evidence, which was unchallenged by the debtor's representative, was given in *Dungate v. Dungate* by the plaintiff as to what exact advances he had made to his brother and what repayments he had received from his brother and from his brother's partner at different times. The Court having heard that

evidence, the meaning of the words 'Keep a check on totals and amounts I owe you and we will have account now and then', became manifest.

The defendant sought to rely on the decision in *Good v. Parry* ([1963] 2 All E.R. 59). In that case the creditor had let a house to the debtor at a weekly rent, none of which had been paid for many years. The debtor-tenant admitted that the creditor-landlord was entitled to recover some £130, being the last six years' arrears, but pleaded the statute of limitations in relation to earlier arrears. In the course of correspondence the debtor had written to the creditor, 'The question of outstanding rent can be settled as a separate agreement as soon as you present your account'. The court held that this letter did not acknowledge the claim, it only acknowledged that there might be a claim. The inference was that if in *Good v. Parry* the letter had acknowledged a claim, then, even though the amount of the claim acknowledged had not been expressly stated, the decision would have been in favour of the creditor. Hence this precedent did not avail the defendant in *Dungate v. Dungate* where there was clearly an acknowledgement, though not an acknowledgement in writing of a particular sum of money.

It was open to the creditor to supplement the letter (as he did) by oral evidence to show the amounts which his brother then owed him and the later position. The letter embraced all the amounts advanced by the creditor and not merely the original £500. As Lord Justice Russell put it in the Court of Appeal:

'The letter of February 23rd, 1962, is in my view equivalent to the deceased acknowledging to the plaintiff: "I owe you money". This is sufficient acknowledgement of the then indebtedness, and the *quantum* can be established, as it has been, by extrinsic evidence'.

The letter in *Good v. Parry* referred to 'the question of outstanding rent' as something to be 'settled' and did not state that any rent was in fact outstanding. In contrast to that, the letter in *Dungate v. Dungate* made it quite plain that there were amounts owing and outstanding.

Tax deduction certificates

It was not necessary for the Court of Appeal to go further and to decide whether or not the tax deduction certificates signed by the deceased debtor would have amounted to an acknowledgement in addition to the acknowledgement in the letter. The trial judge, Edmund Davies, J., did express an opinion on this point.

He did not dilate on his reasons but he was clear that there was an acknowledgement by this means although only in respect of the advance of the £500. The certificates referred only to this sum. According to this opinion the mere fact that the signed acknowledgement was, in part at least, to help a third party (the Inland Revenue) does not prevent its being operative as a statutory acknowledgement as between the debtor and the creditor.

Advance Rulings by the Revenue at the Taxpayer's Request

by PETER HOLDSTOCK

A paper presented at the nineteenth annual congress of the International Fiscal Association in London last September.

AN 'advance ruling' may be defined as an authoritative decision regarding the tax consequences of proposed future transactions. It therefore involves the application of the tax law to anticipated events, as opposed to events already accomplished.

Whilst the subject-matter for a ruling is hypothetical in the sense of being concerned with future events, the hypothesis itself must envisage real, and not imaginary, transactions and must be capable of being stated with precision and in sufficient detail to admit of an advance decision. In the present study, therefore, it is regarded as axiomatic that a taxpayer who requests an advance ruling from the tax authorities is able clearly to specify his proposed transactions (together with any relevant surrounding circumstances) and to state them in such a way as to form a reasonable basis for a ruling.

The ability of a taxpayer to 'request' a ruling also implies that an element of choice is open to the taxpayer, namely that the option is his whether or not to seek a ruling in advance. There may, however, be instances where certain transactions are illegal unless the prior consent of the authorities has been obtained. In the United Kingdom, for example, under section 468, Income Tax Act, 1952, it is illegal (*inter alia*) for a company resident in the United Kingdom to cease to be so resident, or to transfer its trade or business to a non-resident, unless the consent of the Treasury has first been obtained. From a practical viewpoint, therefore, the taxpayer in such a case is under

an obligation to obtain an advance ruling. Such instances are regarded as being outside the scope of the present study, since the taxpayer has no real freedom of choice in considering whether to request an advance ruling.

Extent to which a ruling is obligatory when requested

In the United Kingdom there is no *general* provision in the tax law enabling the taxpayer, as of right, to obtain an advance ruling. There are, however, a few statutory provisions where such a right exists in specific cases (of which examples are given below), but these are exceptional and the position generally is that the taxpayer is not entitled to insist on an advance ruling.

Where the right exists in specific cases, the ruling is given by the tax administration itself. There is no tribunal in the United Kingdom comparable to the Swedish *Riksskattenamnden* with special jurisdiction for advance rulings after formal proceedings in which both taxpayer and tax authorities are represented.

Examples of the specific cases where the taxpayer has a right to request an advance ruling are as follows:

(1) Under section 55, Finance Act, 1927, exemption from stamp duty (viz. capital duty and transfer duty) is allowed in connection with a scheme for the amalgamation or reconstruction of companies subject to certain conditions being satisfied. The taxpayer may deliver to the Commissioners of Inland Revenue details of the proposed scheme, accompanied by a statutory declaration that the necessary conditions for exemption will be complied with, and the Commissioners may then allow the application for exemption on the basis of the proposed transactions. Where the claim for exemption is not allowed, but the scheme is nevertheless implemented, the stamp duty will be duly assessed, but the taxpayer may appeal against such assessment to the High Court.

(2) Under section 32, Finance Act, 1951, which is a general anti-avoidance provision relating to profits tax on companies, if the Commissioners of Inland Revenue are of opinion that the main purpose, or one of the main purposes, for which any transaction was effected was the avoidance or reduction of liability to profits tax, they may 'direct' an adjustment of tax liability to counteract the avoidance or reduction. A taxpayer may, however, furnish the Commissioners with details of the proposed transactions, and if the Commissioners are satisfied that the transactions will be entered into for *bona fide* commercial reasons and are such that no 'direction' ought to be given in respect of them, they have to notify the taxpayer accordingly and their powers to make a 'direction' relevant to those transactions thereupon cease. If the ruling is adverse to the taxpayer there is no right of appeal, but if the taxpayer nevertheless proceeds to effect the transactions and the Commissioners in due course make a 'direction', then the taxpayer may appeal against it under the normal procedure for appealing tax assessments.

(3) Under section 28, Finance Act, 1960, which is an anti-avoidance provision relating to income tax, the Commissioners of Inland Revenue have power to counteract any tax advantages arising from certain transactions in securities whereby (*inter alia*) losses are created by dividend-stripping and other devices with a view to using such losses to recover tax on dividends or otherwise in reducing liability to tax. There is a wide definition of 'transaction in securities' (section 43 (4)) which includes the sale, purchase or exchange of securities, the issue of, or subscription for, new securities, and any alteration of the rights attached to securities. Owing to the generality of the provisions it is possible that they may catch innocent transactions as well as the avoidance devices at which they are aimed. The taxpayer may, however, give details to the Commissioners of any transaction to be effected, and if the Commissioners are satisfied that the proposed transactions are not such as to come within the mischief of the section they have to notify the taxpayer that section 28 shall not apply. The taxpayer cannot appeal against the advance ruling, but if he effects the transaction and section 28 is applied against him then a right of appeal exists.

From the above examples it will be seen that the advance rulings involve both questions of law and fact: fact to the extent that a decision has to be reached whether the proposed transactions are bona fide commercial, and law to the extent that the proposed transactions have to be considered by reference to complex statutory provisions.

In each case the relevant sections further provide that the proposed transactions have to be fully and accurately disclosed, failing which any advance ruling shall be void.

Extent to which rulings are given in practice

Although not obliged to give a ruling, except in the special cases above mentioned, there are certain fields where the tax administration will in practice normally meet any reasonable request for an advance ruling.

For example, the main field in which rulings are given in practice relates to the submission in draft form, for prior approval, of documents creating tax-exempt pension funds and retirement benefit schemes generally. The tax administration may also be consulted in advance regarding the establishment of profit-sharing schemes, and also with regard to the establishment of charitable trusts to ensure that the purposes of the trust are exclusively charitable and thus qualify for tax exemption.

In other fields, advance rulings are in practice less common. They are sometimes sought and given in connection with commercial projects of which the tax consequences are uncertain because of some ambiguity or doubtful interpretation of the tax law. In such cases, the proposed transactions must be real and have a bona fide commercial purpose, since the Revenue will not entertain requests based on imaginary transactions, or which could be regarded as mere 'fishing expeditions', or which involve transactions transparently designed for tax avoidance.

In some fields, rulings are normally not given at all; thus, it would be unusual for a taxpayer to get an advance ruling on transactions involving the disposition of his income or property by way of settlement in favour of a third party. In such transactions, the disponor is generally motivated by the desire not only to confer a benefit on the disponee (normally a related person) but also to achieve a

tax saving in so doing. In such cases, the taxpayer would not normally expect to receive any prior assistance from the tax administration.

Effect of rulings given in practice

Since rulings given in practice have no statutory basis, there are no means of directly appealing them to the Courts. If the taxpayer is dissatisfied with the ruling his only remedy would be to carry out the proposed transactions and then appeal by the normal process of tax law against any tax assessment imposed by the Revenue.

It follows also from their extra-statutory nature that the rulings have no binding effect on the taxpayer or the administration, although in practice the administration would not normally revoke a ruling which had been given at a high level within the department after due consideration. The taxpayer, however, is free to disregard the ruling if he so wishes, and he will in no way be prejudiced if the transactions effected subsequently become the subject matter of tax litigation, since the Courts are not bound by prior administration rulings.

Since the rulings are not binding on the parties it follows that a subsequent change in the law, either by legislation or judicial decision, does not materially alter their status. A ruling would, of course, have no validity if the transactions had not been implemented before a change in the law. Tax legislation does not normally apply retroactively, so that completed transactions are in any event undisturbed. A ruling affecting a particular year of assessment would, of course, be revoked if a change in the law as respects that year rendered it invalid.

It should perhaps be noticed that a judicial decision does not theoretically change the law: the *ratio decidendi* of a judgment may change existing practice or preconceived principles, but the decision is, in effect, not only a pronouncement of what the law is, but, by implication, of what it always ought to have been. Thus, whilst a judicial decision may theoretically have retrospective effect, the tax administration will not revoke prior rulings to a contrary effect where these have been acted upon and become the subject-matter of concluded tax assessments. Conversely the taxpayer who has received an adverse ruling, but has acquiesced therein and has paid the resulting tax assessed, is precluded by the proviso to section 66 (2), Income Tax Act, 1952, from using a subsequent favourable judicial decision as a reason for reopening his assessment on the grounds of 'error or mistake'.

Advance rulings are not published and have no binding effect on other taxpayers. However, rulings given with respect to one taxpayer are likely to be applied to other taxpayers in like circumstances since in the interests of good administration the Revenue conduct their affairs by reference to precedents established within their own department.

Effectiveness of present position: possible reforms examined

Subject to reservations concerning possible reforms, the present informal *ad hoc* system operates well enough in practice. The taxpayer with a genuine case for an advance ruling will generally be able to obtain one in practice from the tax administration. The absence of a general statutory right for the taxpayer to request a ruling debars in practice only the taxpayer whose proposed transactions are motivated clearly by tax avoidance, but such a person would, in any event, under any system be ill-advised to seek a ruling. The fact that rulings given in practice have no binding effect does not normally create any problems for the taxpayer, since such rulings are most unlikely to be revoked by the administration when they have been acted upon in good faith.

The present system is also probably more appropriate for the United Kingdom since the field in which there is a need for advance rulings is probably narrower than in some other countries. This limitation is due to the fact that the form of the transactions, as opposed to their substance or economic consequences, is normally the governing factor in applying the United Kingdom tax law to such transactions. Where the law is clear and unambiguous (which it is more often than some practitioners would care to admit) the competent professional adviser should be able legitimately to devise the transaction in a form which will meet the requirements of the tax law and thus render an advance ruling unnecessary.

Whilst, as is suggested below, there may be arguments in favour of referring certain advance rulings to an independent tribunal, whose decisions would be binding on both parties although subject to normal appellate process, there does not appear to be a general need in the United Kingdom for a tribunal with general jurisdiction over advance rulings on the lines established, for example, in Sweden.

It would appear that such a tribunal would have to arrogate to itself some of the functions inherent in the administration of taxes, and there must be some doubt whether it would be better equipped to perform such functions than the department of the Civil Service to which it normally belongs. The taxpayer would probably be in no better position under such a system, since his freedom of action to plan his affairs on the best tax advice available would probably be circumscribed by a large number of reported advance rulings obtained by other taxpayers. Such a system would probably also be productive of more, not less, litigation since the Revenue authorities might, on administrative grounds, be more inclined to appeal decisions unfavourable to them.

Certain advantages

The advantages of an independent tribunal can probably be argued with more force in those cases in the United Kingdom where the taxpayer seeks an advance ruling with a view to establishing that his proposed transactions do not come within the general anti-avoidance provisions, of which section 32, Finance Act, 1951, and section 28, Finance Act, 1960, were noticed earlier in this study. Whilst under these sections the taxpayer has the right to seek an advance ruling, there are other anti-avoidance provisions where no such right exists (e.g. Finance Act, 1954, Second Schedule, regarding the withholding or withdrawal of investment allowances in certain events). In such cases it is suggested that the taxpayer should have the right to request an advance ruling and should also have the right to refer his proposed transactions to a tribunal independent of the tax administration whose decision would be given after hearing formal representations by both taxpayer and tax administration and which would be binding on both parties but subject to normal appellate jurisdiction.

It should not be inferred that in such cases the Revenue give rulings other than on strictly impartial and equitable grounds, but the nature of the anti-avoidance legislation makes it desirable, for the fullest protection of the taxpayer, not only that justice should be done but also that it should be seen to be done.

Apart from the transfer of this special jurisdiction in a limited number of advance rulings, it is not suggested that the present *ad hoc* system on other rulings requires any change. So far as is known, there have been no other proposals for reform. The writer knows of no literature in the United Kingdom on this subject, and this no doubt is a clear indication that the present system does not arouse deep animosities.

Mathematics in Accountancy–IV

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THIS article deals with techniques for the control of figures around a target area, together with the problems relating to risk and uncertainty, and the measurement of probability in business decision making.

A great deal of work has been done at one time and another on the problem of determining whether a sudden high or low result in a series of figures is significant or not. Suppose we have a series of weekly cost figures from a cost centre. Does a sudden increase in one period mean that action should be taken immediately to remedy the cause, or is the variation within the normal range of fluctuations that must inevitably occur? Or suppose we are concerned with quality control of a product in a factory. Naturally, deviations will occur from the pre-set standard. Is one individual substantial deviation due to chance or not?

In the second article in this series[1], the normal error or random chance distribution was discussed at some length. Taking the quality control example, we can imagine a normal curve drawn with its mean along the central line of the observed results or at the pre-defined standard. Using a set of past results and applying the previously indicated formula (page 765):

$$\sigma^2 = \frac{x_1^2 f_0 + x_2^2 f_2 + \dots + x_n^2 f_n}{f_1 + f_2 + \dots + f_n}$$

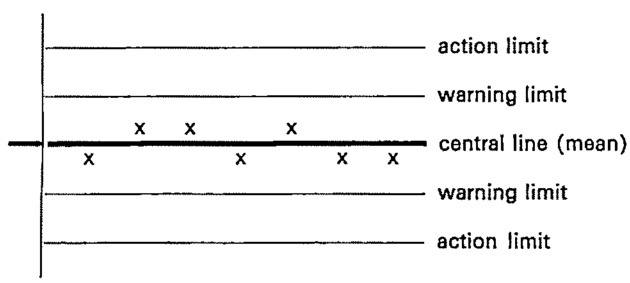
we can determine the standard deviation (σ) of the curve. We know that if limits are set 3σ on either side of the mean, then under 1 in 100 of the observed results should fall outside these limits, if chance is the only factor.

[1] *The Accountant*, December 11th, 1965.

In practice it is usual to have two limits, a 'warning' limit, and an 'action' limit, as shown diagrammatically in Figure 1 below.

The warning limit might be set at (say) 3σ each side of the central line and the action limit at (say) 6σ. If one result or sample were to be outside the action limit, this in itself would be so unlikely, on a pure chance basis, that it would be grounds for assuming that the production conditions had changed and that a shift in the position of the central line had occurred. Remedial action would then be taken. If any result (or sample) transgressed the warning limits this would call for an immediate set of further results, or samples, with a view to determining whether the result was due to chance, or whether a shift in the central line had actually occurred.

FIGURE 1



Sometimes the warning lines are set fairly close to the central line (say $\pm 2\sigma$) and two consecutive results outside either of these limits is regarded as sufficient evidence for action. Or a set of lines at $\pm\sigma$ may be constructed and three consecutive results outside of these lines will be the trigger for action. The aim of all these schemes is to find a warning system which will indicate as quickly as possible a real change in the conditions determining the central line whilst guarding against unnecessary action based on the odd freak result.

These are the techniques which have been standard practice until recently. They do not, however, operate very efficiently. A substantial change in the position of the central line may have taken place some considerable time before action is indicated. Partly the fault lies in the fact that all these schemes only make use of current results, whereas for decision purposes all available information (i.e. the immediate past results as well) needs to be taken into account.

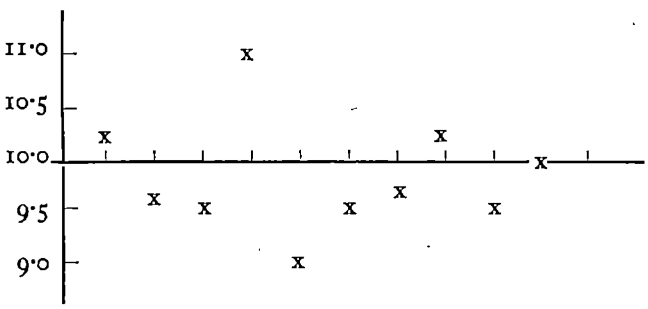
A very recent development in this field is the use of the cumulative sum (cusum) chart control scheme[2]. The 'cusum' method can best be described by means of an example (see Fig. 2).

FIGURE 2

1	2	3	4	5
1	10·1	10·1	10	+0·1
2	9·7	19·8	20	−0·2
3	9·5	29·3	30	−0·7
4	10·8	40·1	40	+0·1
5	9·0	49·1	50	−0·9
6	9·5	58·6	60	$\boxed{-1·4}$
7	9·7	68·3	70	$\boxed{-1·7}$
8	10·1	78·4	80	$\boxed{-1·6}$
9	9·4	87·8	90	$\boxed{-2·2}$
10	10·0	97·8	100	$\boxed{-2·2}$

(All five results within the box have a negative sign, and are numerically greater than 1.)

Column 2 shows the ratios of the return on capital employed of a branch for ten consecutive four-week periods. For a long while a basic return of 10 per cent on capital has been regarded as reasonable. Plotting these ratios in a similar manner to Fig. 1 gives a picture as follows:



There would seem to be no clear indication of any change in the central line of the results. However, if we now add a cumulative sum column (col. 3), a cumulative control figure (col. 4), and a final column (col. 5) which is the difference between cols 3 and 4, we obtain the completed table (Fig. 2). An inspection of the last column indicates pretty clearly that around the middle of the series a material decrease has taken place.

Even when the change in the mean is very slight the 'cusum' technique shows up the change quickly and accurately. The great advantage of this method is that it can be used where the data are available only weekly or monthly, and only a comparatively few past results are available. The latest step in this sophisticated technique is that instead of using the same mean or reference value month by month, a series of values can be used which follow a seasonal or cyclical pattern obtained in previous years.

In the third article[3] the problem of dealing with a range of possible values in forecasting future trends in profits, sales, costs, etc., was mentioned. This problem has met with increasing attention in recent years and the mathematical treatment can be involved and complex.

Now it may be difficult to put any definite figure down as an estimate for a future event, but it is greatly preferable to put down some figure rather than no figure at all. Very little can be done with estimates such as 'I think sales will be a good deal bigger five years from now'. But something can be done with 'Sales may be around £900,000 five years from now'. Better still – and certainly more realistic – 'I put a 50 per cent probability on sales being £1 million in five years; a 25 per cent probability on the sales drive being partly successful and the sales figure being £800,000, and a 25 per cent chance on our present figure of £600,000 not being exceeded'. How can this latter statement be incorporated in straightforward assessments of the future?

Suppose, for instance, that there is a 50 per cent (i.e. $\frac{50}{100}=0·5$) chance that something will happen, e.g. I will receive £1,000 in a month's time. Common sense will tell me, since there is a half chance that I will get the £1,000, that the expected value to me now is £500 (ignoring any question of interest for the month). In the form of an equation:

$$\frac{\text{Sum}}{£1{,}000} \times \frac{\text{Probability}}{0·5} \times \frac{\text{Expected value}}{£500}$$

The sales estimate can be evaluated in a similar way:

Amount		*Probability*		*Expected value* £
1,000,000	×	0·5	=	500,000
800,000	×	0·25	=	200,000
600,000	×	0·25	=	150,000
		Total value		£850,000

Again, suppose that past performance data have given the life of a machine as follows:

Life	*Average*	*No. of machines*
0–2 years	1 year	—
2–4 years	3 years	2
4–6 years	5 years	4
6–8 years	7 years	3
8–10 years	9 years	1
	Total	10

[2] See I.C.I. Monograph No. 3 for a full and clear exposition of cumulative sum techniques.

[3] *The Accountant*, January 8th, 1966.

In estimating the future life of a similar new machine, the calculation will be:

No. of years		*Probability*	*Expected life*
1	×	0·0	0·0
3	×	0·2	0·6
5	×	0·4	2·0
7	×	0·3	2·1
9	×	0·1	0·9
		Total=Expected life=	5·6 years

The concept of expected value can be used in assessing alternatives. Thus if alternative A. is followed, then there is (say) a 0·5 probability that a cost of £15,000 will be incurred, and a 0·5 probability of £20,000. That is:

Alternative A.

	£
15,000×0·5	7,500
20,000×0·5	10,000
Total	£17,500

On the other hand if alternative B is followed, there may be a 0·9 probability that £7,500 will be incurred and a 0·1 probability of £80,000.

Alternative B.

	£
7,500×0·9	6,750
80,000×0·1	8,000
Total	£14,750

On the face of it, alternative B. is the more attractive. But is it always? Suppose that the business is a small one, with yearly profits around £20,000. Either of the costs in alternative A. can be met without making a material loss; but the loss of £80,000 in alternative B. (though unlikely) might be completely disastrous to the business, making it unable to carry on. Above a certain figure, therefore, the expected value analysis is not acceptable as the sole criterion on which to base decision making.

The final problem that we have to face in this sort of work is the highly-charged one of complete uncertainty. There are situations in which it is virtually impossible to put any figure on the likelihood or not of a contingency occurring. A new project, such as a new missile or defence weapon, may or may not be acceptable to the Ministry of Defence when finally it is ready for use or trials. Ministry officials are notoriously careful about committing themselves in any way, even if they know themselves. And even they may not have any idea at all, because who can tell what the defence requirements will be in two or three years' time, or whether the Government of the day will authorize the expenditure.

Explorations for oil or gas in the North Sea may or may not be successful – there is little or nothing to act as a guide. There may be complete uncertainty as to whether a new sales product will catch on, for a variety of reasons. Perhaps no market survey is possible, since to manufacture the product in any quantity requires establishing a plant geared to large-scale production.

Consider this typical example given in 'matrix' form (the word 'matrix' here being used in the more general sense of a layout in square or rectangular bed shape, rather than the specific mathematical sense met with in article No. 1 in this series[4].):

	Contingency A. £	*Contingency B.* £
Make investment ..	+100,000	−40,000
Postpone investment	− 25,000	+50,000

The figures given represent the expected profits in the event of a simple decision being made either to go ahead and make an investment, or to postpone it. There is, we suppose, complete uncertainty as to whether contingency A. or contingency B. will occur.

There are a number of possible ways of looking at this problem depending on what aspect we value most highly. It may be that we place most importance on being as well off as possible in the event of the contingency operating against us. If we make the investment and the wrong contingency (B.) occurs, the loss is £40,000; if we don't, and the wrong contingency (A., in this case) occurs, the loss is £25,000. On this criterion – called 'maximin' – we must postpone investment.

But it may be that we place most importance on coming off best if the contingency operates favourably towards us. On this criterion – called 'maximax' – we must make the investment, for in that way we could make £100,000 as opposed to £50,000. (Where costs are concerned and the overall aim is therefore to reduce rather than increase the figures, the parallel criteria are called 'minimax' and 'minimin'.)

One further assessment can be made of some interest. Suppose that above all we wish to minimize the regret that we shall suffer in the event that the contingency goes against us. If we make the investment and the contingency goes against us (i.e. B.), then the amount of the regret (measured in money terms!) will be the difference between £50,000 and −£40,000, i.e. £90,000. If we postpone the investment and the contingency goes against us (i.e. A.), the regret will be the difference between £100,000 and −£25,000, i.e. £125,000. So the 'minimax regret' criterion indicates that we should make the investment.

(*To be continued.*)

[4] *The Accountant*, November 27th, 1965.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Cannon Industries Ltd v. Edwards

In the High Court of Justice (Chancery Division)
December 2nd, 1965

(Before Mr Justice PENNYCUICK)

Income tax – Trade – Additional activity – Whether new trade set up – Whether affidavits can be tendered about proceedings before Appeal Commissioners – Income Tax Act, 1952, section 142.

Until June 30th, 1958, the company carried on the trade of manufacturing gas appliances and gas chemical plant. On that day the company began to carry on the activity of assembling electrical food mixers under a trade name.

It was contended for the company that a new trade had been set up on July 1st, 1958, in the buying, assembling and selling of electrical appliances, and that this trade was carried on separately from the gas appliances trade. It was contended for the Revenue that the buying, assembling and selling of electrical appliances was an extension of the existing trade. The Special Commissioners decided that there had been merely an extension of the existing trade.

At the hearing in the Chancery Division two affidavits were tendered for the purpose of stating that certain things had happened during the hearing of the appeal by the Special Commissioners.

Held: (1) the Special Commissioners' decision that there had been merely an extension of the business was correct, (2) the affidavit evidence could not be received.

Chancery Lane Safe Deposit Co Ltd v. C.I.R.

In the House of Lords – December 15th, 1965

(Before Lord REID, Lord MORRIS OF BORTH-Y-GEST, Lord UPJOHN, Lord WILBERFORCE and Lord PEARSON)

Income tax – Mortgage interest – Charged to capital – Whether paid out of taxable income – Income Tax Act, 1918, General Rules 19, 21 – Income Tax Act, 1952, sections 169, 170, 184, 510.

The company owned a building comprising a safe deposit below ground and a number of offices and flats. In the Second World War the whole of the above-ground part of the building was destroyed, but the safe deposit remained usable. From 1949 to 1958 rebuilding took place, and during those years the company borrowed sums of money which in 1957 reached a total of £650,000. Repayment began in 1958, and the whole £650,000 was repaid by 1961. For 1954–55 the company's income was £8,933; in 1958–59 it was £75,000. Interest on the loan was £2,350 in 1954–55 and in 1957–58 it was nearly £30,000. On the advice of its auditors the company in 1954–55 to 1958–59 charged a part of the interest to capital in its accounts. The company's taxed income in those years was sufficient to cover the dividends and also the parts of the interest debited to capital.

In an appeal against assessments for 1954–55 to 1958–59 under section 170 of the Income Tax Act, 1952, it was contended for the company that although the items of interest in question had been debited to capital in its accounts, these items had nevertheless to be treated as having been paid out of taxable income, as the company had ample such income to cover; and that those payments were therefore within section 169 of the Act, and the company was not under an obligation to account to the Revenue under section 170 for the tax deducted. The company also contended that an agreement had been made under section 510 of the 1952 Act, for 1955–56, and that therefore the assessment for that year was bad for that reason also.

The Special Commissioner decided that no agreement under section 510 had been made on the point at issue; and that the interest was assessable under section 170.

Held (affirming the decision of the Court of Appeal): there had been a decision by the company to charge the interest in question to capital and the Special Commissioners' decision was correct.

B. W. Nobes & Co Ltd v. C.I.R.

In the House of Lords – December 15th, 1965

(Before Lord REID, Lord MORRIS OF BORTH-Y-GEST, Lord UPJOHN, Lord WILBERFORCE and Lord PEARSON)

Income tax – Annual payment – Deduction of tax – Dividends mainly absorbing current income – Whether annual payment out of taxable income – Income Tax Act, 1952, sections 169, 170.

The company carried on business as a ship-broker, and its accounts were made up to March 31st, each year. On March 31st, 1958, the company had a balance on profit and loss account of £4,449, but the total taxed profits from the date the business began in 1951, less dividends, was on March 31st, 1957, it was contended, £74,188. In May 1957, the company caused a company (Aconite) to be incorporated, and both the shares therein were held by the appellant company. On July 12th, 1957, the appellant company made a deed of covenant with Aconite, whereunder, in consideration of the allotment to the appellant of the other ninety-eight shares in Aconite, the appellant covenanted to pay to Aconite, in each of the nine years until April 5th, 1966, a sum equal to the net income of the appellant in each of those years derived from certain sources; but the sum paid in each year was not to exceed the appellant's income from all sources charged to income tax in that year, reduced by other annual payments. It was common ground that the payments in question were annual payments within section 169 of the Income Tax Act, 1952.

On July 18th, 1957, the appellant made an agreement with another company (C.I.F.), whereby the appellant sold to C.I.F. the whole of the issued capital of Aconite for £45,000. The sum of £100 was paid on completion, and the balance was to be satisfied by the payment to the appellant in each of the same nine years to April 5th, 1966, of a sum equal to the net profit of Aconite. If the aggregate of these sums exceeded £45,000, the purchase price was to be increased by the excess.

It was common ground that the sums received by the appellant from C.I.F. were received as capital. An account was opened in the appellant's ledger under the heading 'Shares in Aconite Investments Ltd'. On the debit side the payments to Aconite were the gross payments, and the sums received from C.I.F. were payments on account equal to the amount paid by the appellant to Aconite. Thus the account exactly balanced, and because of this the transaction did not appear in the appellant's audited account except in notes on the balance sheets.

For the year ended March 31st, 1958, the net profit of the appellant including the balance brought forward, was £35,774 and out of this the appellant paid dividends of £34,349 leaving £1,425 to be carried forward. During that year the net payment to Aconite was £25,225. For 1959 the net profit, including the balance brought forward, was £26,727, and the net dividends came to £24,500, so that the balance carried forward was £2,227. The net payment to Aconite for that year was £27,097. For 1960 the net profit, including the balance carried forward, was £30,984, and the net dividends came to £24,500, and the balance carried forward was £6,484. The net payment to Aconite in that year was £26,539. At March 31st, 1957, the gross taxed income of previous periods, less gross dividends, was claimed to be, as stated, £74,188.

It was contended on behalf of the appellant that the annual payments made to Aconite were made out of taxable income of the appellant. It was contended on behalf of the Revenue that the payments to Aconite were not made out of taxable profits, but were made out of capital, because for each of the years of payment there was not sufficient taxable income to cover both the payment and the dividend; and that the appellant was bound, under section 170 of the 1952 Act, to account for the tax deducted. The Special Commissioners decided in favour of the Revenue.

Held (affirming the decision of the Court of Appeal): there had been a decision by the appellant company to make the annual payments out of capital, and the decision of the Special Commissioners was correct.

Reviews

Petroleum Accounting Practices

by STANLEY P. PORTER, C.P.A.

McGraw-Hill Publishing Co Ltd, Maidenhead. 120*s*.

The author is a partner in a leading firm of public accountants in the U.S.A. and has appeared as an expert witness before the Federal Power Commission. He is thus well qualified to deal effectively with his chosen subject. Not only does he do so but he also adds a great deal of background information on the organization and methods of petroleum extraction and exploitation both in the spirit and the gaseous states.

Such problems as the amortization of investment in undeveloped land, drilling and development operations, geological costs and governmental regulations are discussed, but the most important sections deal with the functional classification of production expenses.

In an industry subject to so many regulatory bodies, the necessity of maintaining records which reflect the prescribed regulations is of importance, and large parts of this book is concerned with the extensive legislation governing the industry in the U.S.A. The author also analyses alternative methods of disposing of petroleum finding costs, rail tank and marine operations, refining and marketing, and income tax allocation, with particular reference to the various depreciation methods permitted for tax computation purposes. The book does not go into great detail as regards the accounts of petrol filling stations but it does outline the varying arrangements for linking producers with retailers, and includes some very useful comments on inventory valuation.

This is a book for a limited public but in its specialist field constitutes a comprehensive and helpful treatise from one who has an immense knowledge of his subject.

Aspects of Accounting and Auditing

edited by J. LANGHOUT, B.COM., C.A.(S.A.), A.S.A.A.

A. A. Balkema, 65 Burg Street, Cape Town. £3 3*s*.

With the pressing problems of the last Finance Act and other domestic accounting preoccupations, it is refreshing to find a South African publication which presents a selection of thirty-eight articles from leading world professional journals giving comprehensive cover to major accounting topics from the South African viewpoint. The book represents a synthesis of current ideas and practice, and affords a useful comparison with those current in Britain thus envigorating day-to-day problems.

The editor's preface recommends the use of the book as a textbook for advanced accounting courses, and for post-graduate courses in business administration. It is also useful both to the professional accountant and the student accountant, and for staff training programmes. There are six main sections ranging from developments in the profession and in auditing techniques to accounting for rising

price levels, management accounting, modern trends and the legal aspects with regard to auditing. The sections are introduced by either a South African university professor or a professional accountant which enhances the international approach of accounting techniques.

The book is also useful as a work of reference; and particular value is gained if the introductions to each section are read before going on to the articles themselves, in order to appreciate the whole scope of the book. To this end an index would have been an advantage.

A Guide to the Business World

by Ronald A. Packman

Longmans Green & Co Ltd. 13*s* 6*d*.

This paperback is intended to provide an overall picture of the workings of the City and of commerce in general to students working for the O.N.C. and Diploma in Business Studies. Thus it covers the whole range of City institutions, together with a brief review of their functions providing an introduction to the legal characteristics of different types of business enterprise. The author is modest in his claims for his work, for the level of discussion and the clarity of exposition would make this an eminently useful text for younger students in their first year studies for the professional accounting and secretarial bodies' examinations. They will appreciate the summaries of each chapter appended at the end of the book.

Case Studies

by E. C. D. Evans, B.SC.(ECON.), F.A.C.C.A., A.C.I.S., A.M.B.I.M.

Macdonald & Co (Publishers) Ltd, London. 25*s*.

The book by the director of accounting studies of the Management Accounting Research Unit at Slough College appears as volume 4 in the publishers' Pillars of Management Accounting Series. It is based on work done in the research unit which is engaged in the study of the practical problems of business administration. The formation and background of this research unit is interesting and is not widely known. It was formed in 1958 to study live problems of management in businesses of all sizes.

The book is intended for advanced study in management and accountancy. There are ten cases ranging from cost, production, stock, invoicing and credit control to distribution, forecasting and organization structure, where the problems are posed and recommendations for their solution are suggested. Greater benefit may be gained from the book if the reader attempts his own solution first and then compares this with the recommendations.

In its simulation technique the book perhaps goes beyond any previously published British work. It is not, however, 'easy going' on one's own and the discussion group approach would obviously produce a more comprehensive solution bearing on all the facets of the situation. Among its illuminating appendixes, a survey by the research unit shows the basis of accounting principles and procedures which were used in a sample of forty organizations spread over a cross-section of various industries and services. All used double-entry book-keeping for financial records but twenty-five did not integrate these with the costing records. No reasons are given for this nor are any conclusions drawn from the survey by the author, but it appears that overall the survey revealed the use of a fair degree of applied management accountancy.

A further survey was made of forty-one organizations to find out the frequency of reporting management accounting data over supervisory, middle and higher management. This survey showed that emphasis on reporting on a monthly basis to middle and higher management was evident, compared with a significant dearth of reporting to the supervisory level. A third survey shows the extent of methods used to measure capital employed over thirty-three sample organizations, twelve of which used payback methods and discounted cash flow techniques. Only eleven firms, however, took taxation into account. This book is well worth a close study of its 129 pages.

Standard Statistical Calculations

by P. G. Moore, PH.D., and D. E. Edwards, B.SC.

Sir Isaac Pitman & Sons Ltd, London. 27*s* 6*d*.

This book by two members of the statistical department of the Reed Paper Group, the former of whom has recently been appointed Professor of Statistics in one of the new schools of management studies, is based upon a manual of statistical methods prepared for internal use within the group. According to the joint authors the manual proved both popular and successful and a selection of techniques, amplified where necessary, have now been published in this book.

The statistical methods illustrated here range from simple tests for arithmetic means, including the t and F tests, through examples of the application of the analysis of variance to correlation and regression. Further sections cover multiple and quadratic regression, chi-squared tests, and curve fitting. The data throughout are derived from the paper industry, but the methods illustrated are of general and widespread application.

Although not a textbook in the conventional sense of the term, any student who wishes to extend his knowledge of applied statistics will find much of interest, to say nothing of a selection of additional exercises appended at the end of each chapter. This is not a book for the layman or student of elementary statistics, but it could be read with profit by any one with advanced level mathematics.

RECENT PUBLICATIONS

Statistics for Accountants, by Raymond Brockington, B.COM., A.C.A., 149 pp. $8\frac{1}{2}\times5\frac{1}{2}$. 22*s* 6*d* net. Post free (inland) 23*s* 2*d*. Gee & Co (Publishers) Limited, London.

The Cost Accounting Function, by T. K. Cowan, M.COM., F.P.A.N.Z. xii+355 pp. 10×6. £3 10*s* net. Sweet & Maxwell Ltd. London.

Byles on Bills of Exchange, twenty-second edition, by Maurice Megrah, M.COM.(LOND.), assisted by F. R. Ryder, LL.B., F.I.B. lxxviii+496 pp. 10×6. £6 6*s* net. Sweet & Maxwell Ltd, London.

Income Taxes in the Commonwealth, Sixth supplement (December 1964) loose-leaf volume, £5 net. Her Majesty's Stationery Office, London.

Finance Act 1965 Annotated, Income Tax, Capital Gains Tax and Corporation Tax Provisions, edited by D. Bruce Jones, B.A., v+598 pp. $9\frac{1}{2}\times6$. Card cover. 40*s* net. Butterworth & Co (Publishers) Ltd, London.

Policies and Methods for Industrial Development, by Murray D. Bryce, x+309 pp. 9×6. 60*s* net. McGraw-Hill Publishing Co Ltd, Maidenhead, Berkshire.

The Geography of Economics, by Geoffrey Parker, M.A., xii+244 pp. $7\frac{1}{2}\times5$. 13*s* 6*d* net. Longmans, Green & Co Ltd, London.

Finance and Commerce

Lloyds & Scottish

THE accounts of Lloyds & Scottish Ltd, which form the subject of this week's reprint, are accompanied by an explanation by the chairman, Mr Ian W. Macdonald, C.A., of the company's depreciation and unearned finance charge policies for accounting purposes. The group pre-tax profit of £3,515,000 against £3,701,000, the chairman says, is not entirely comparable because of the incidence of depreciation and taxation on leasing contracts. An increase in the amount of leasing business is reflected in the balance sheet with plant and equipment on lease at cost standing at £6,833,000 against £2,595,000.

The accounting method followed spreads depreciation on the leased equipment evenly over the primary period of the contract and similarly spreads the benefit of investment and other capital allowances granted for taxation. As a result, the pre-tax profit reflects the charge for depreciation – as will be seen in Note 1 to the accounts – but does not allow for the taxation benefit. The reduction in the pre-tax profit is therefore more than compensated by the taxation benefit derived solely from leasing.

The taxation equalization account, it may be noted in this connection, is up from £540,000 to £1,040,000.

Unearned charges

On the question of unearned finance charges, Mr Macdonald reminds his readers that 'there is no standard or accepted method of computation even among leading finance companies, and the degree of conservatism varies considerably'. The normal practice in Lloyds & Scottish is to spread the income from hire-purchase contracts in accordance with actuarial principles which take into account the diminishing amount of capital outstanding as the contract runs its course.

Accordingly, in the allocation of the instalments, the amount earmarked for revenue is at a peak in the first instalment and falls progressively thereafter. Mr Macdonald says: 'We regard this method (widely known as the seven-eighths method) as appropriate for a business such as ours, and likely to result in the minimum distortion from monetary fact.'

On the other side of the picture, all running expenditure is charged to revenue account as and when incurred, with the sole exception of dealers' commission in the motor trade. That is spread over the period of the contract on the

LLOYDS & SCOTTISH LIMITED and its subsidiaries

CONSOLIDATED BALANCE SHEET, 30th September, 1965.

	1965 £	1965 £	1964 £	1964 £
CAPITAL				
Authorised & Issued				
Ordinary Shares of £1 each		15,000,000		15,000,000
CAPITAL RESERVES .. .. (See Note 3)		263,000		139,000
REVENUE RESERVES				
General Reserves (See Note 4)	351,000		352,000	
Unappropriated Profits ..	1,515,000		602,000	
		1,866,000		954,000
		17,129,000		16,093,000
AMOUNTS SET ASIDE FOR TAXATION				
Corporation Tax	1,159,000		—	
Income Tax 1965-66 ..	—		821,000	
Tax Equalisation (See Note 2)	1,040,000		540,000	
		2,199,000		1,361,000
OUTSIDE SHAREHOLDERS' INTERESTS				
In the Capital and Reserves of Subsidiary Companies		2,831,000		2,584,000
CURRENT LIABILITIES				
Bank Overdrafts and Acceptance Credits ..	26,039,000		21,500,000	
Deposits	82,324,000		65,539,000	
Creditors and Accrued Expenses	2,942,000		2,439,000	
Taxation	1,223,000		1,807,000	
Proposed Dividend (net)	529,000		551,000	
		113,057,000		91,836,000
UNEARNED FINANCE CHARGES		11,714,000		9,413,000
The "Notes on the Accounts" annexed hereto form part of the Company's Accounts.				
		£146,930,000		£121,287,000

	1965 £	1965 £	1964 £	1964 £
CURRENT ASSETS				
Hire Purchase and other Debtors and Payments in Advance, *less Provision for Doubtful Debts* ..		134,793,000		112,733,000
Cash, Bank Balances and Money at Call		3,982,000		3,414,000
Quoted Investments (See *Note 5*) (*Market Value £1,026,000 1964—£1,522,000*) ..		1,027,000		1,490,000
		139,802,000		117,637,000
SUBSIDIARY COMPANIES NOT CONSOLIDATED				
Shares at cost	—		20,000	
Amounts owing	—		238,000	
		—		258,000
TRADE INVESTMENTS IN ASSOCIATED COMPANIES				
Shares at cost		555,000		355,000
FIXED ASSETS				
Freehold and Leasehold Property, Motor Cars, Furniture and Equipment at cost	1,542,000		1,263,000	
Less: Depreciation and Amortisation to date	608,000		529,000	
		934,000		734,000
Plant and Equipment on lease at cost	6,833,000		2,595,000	
Less: Depreciation to date	1,194,000		292,000	
		5,639,000		2,303,000
		£146,930,000		£121,287,000

Ian W. Macdonald
Jeremy Raisman
} Directors

basis that part of the commission is recoverable if the contract does not run its normal course to the terminal date.

Restraint

Clarification of some of the narrow but important technical difficulties on taxation uncertainties in relation to investment and capital allowances as applied to plant and equipment leasing, were cleared up during the course of the financial year under review, but the 1965 Finance Act has again complicated the position by reducing the investment and capital allowances to the corporation tax rate of relief, and the rate has yet to be determined.

Against that background, the company is exercising a measure of restraint on the leasing side even though the total volume of business has been considerably increased.

Hire-purchase legislation which came into operation at the beginning of this year, on the other hand, has created fewer problems, delays and losses than anticipated. Mr Macdonald reports no significant increase in the backlog of cases awaiting Court decisions and that, he considers, 'indicates that hirers generally needed no more protection than was available prior to the passing of the Act'.

Indeed, there is some evidence of an effect contrary to expectations in that finance companies are exercising more frequently their limited right to repossess goods in the early months of a hiring agreement.

LLOYDS & SCOTTISH LIMITED and its subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the Year ended 30th September, 1965.

	1965 £	1965 £	1964 £	1964 £
GROUP PROFIT before TAXATION (See *Note 1*)		3,515,000		*3,701,000*
TAXATION based on profit for the year:				
Corporation Tax (at 40%)	1,159,000		—	
Income Tax	788,000		*695,000*	
Profits Tax	66,000		*271,000*	
Tax Equalisation (See *Note 2*)	500,000		*540,000*	
Overseas Taxes	458,000	1,263,000	*438,000*	*1,944,000*
GROUP PROFIT after TAXATION		2,252,000		*1,757,000*
Proportion of profit attributable to shares held outside the group		327,000		*320,000*
		1,925,000		*1,437,000*
Retained by subsidiary companies by way of:				
Written off Investments in subsidiaries	76,000		*40,000*	
Transfers to Capital Reserves	7,000		*7,000*	
Transfers to Revenue Reserves	48,000		*37,000*	
Increase in Unappropriated Profits	782,000	913,000	*350,000*	*434,000*
BALANCE AVAILABLE for appropriation by Lloyds and Scottish Limited		1,012,000		*1,003,000*
Add: Unappropriated Profit at 30th September, 1964		229,000		*145,000*
		1,241,000		*1,148,000*
DIVIDENDS, *less* Income Tax		881,000		*919,000*
UNAPPROPRIATED PROFITS carried forward by Parent Company		360,000		*229,000*
Add: Retained by subsidiary companies				
Brought forward	373,000		*23,000*	
Retained, as above	782,000	1,155,000	*350,000*	*373,000*
UNAPPROPRIATED PROFITS carried forward by Group		£1,515,000		*£602,000*

NOTES ON THE ACCOUNTS

	1965 £	1964 £
1. PROFIT AND LOSS ACCOUNT		
The Group Profit before Taxation has been arrived at after charging:—		
Emoluments of Directors:		
Fees	17,200	*17,000*
Other Emoluments	15,000	*15,000*
Pension Contributions	5,500	*5,500*
Pension to Past Director	1,600	*1,600*
	39,300	*39,100*
Depreciation of Plant and Equipment on lease	909,000	*292,000*
Depreciation of Other Fixed Assets	149,000	*147,000*
and after crediting:—		
Income from Investments:		
Quoted Investments	48,000	*57,000*

2. TAX EQUALISATION ACCOUNT
The tax equalisation account represents that proportion of the tax relief on investment allowances on plant and equipment on lease which has been attributed to the unexpired periods of lease together with tax deferred by the excess of other capital allowances over depreciation charged in the accounts.

	1965 £	1964 £
3. CAPITAL RESERVES of GROUP		
Balance at 30th September, 1964	139,000	*468,000*
Add: Transfers from Profit and Loss Account	83,000	*47,000*
Transfers from General Reserves	49,000	—
	271,000	*515,000*
Less: Goodwill arising on consolidation of the Eurocredit Group	8,000	*376,000*
Balance at 30th September, 1965	263,000	*139,000*
4. GENERAL RESERVES of GROUP		
Balance at 30th September, 1964	352,000	*315,000*
Add: Transfers from Profit and Loss Account	48,000	*37,000*
	400,000	*352,000*
Less: Transfers to Capital Reserves	49,000	—
Balance at 30th September, 1965	£351,000	*£352,000*

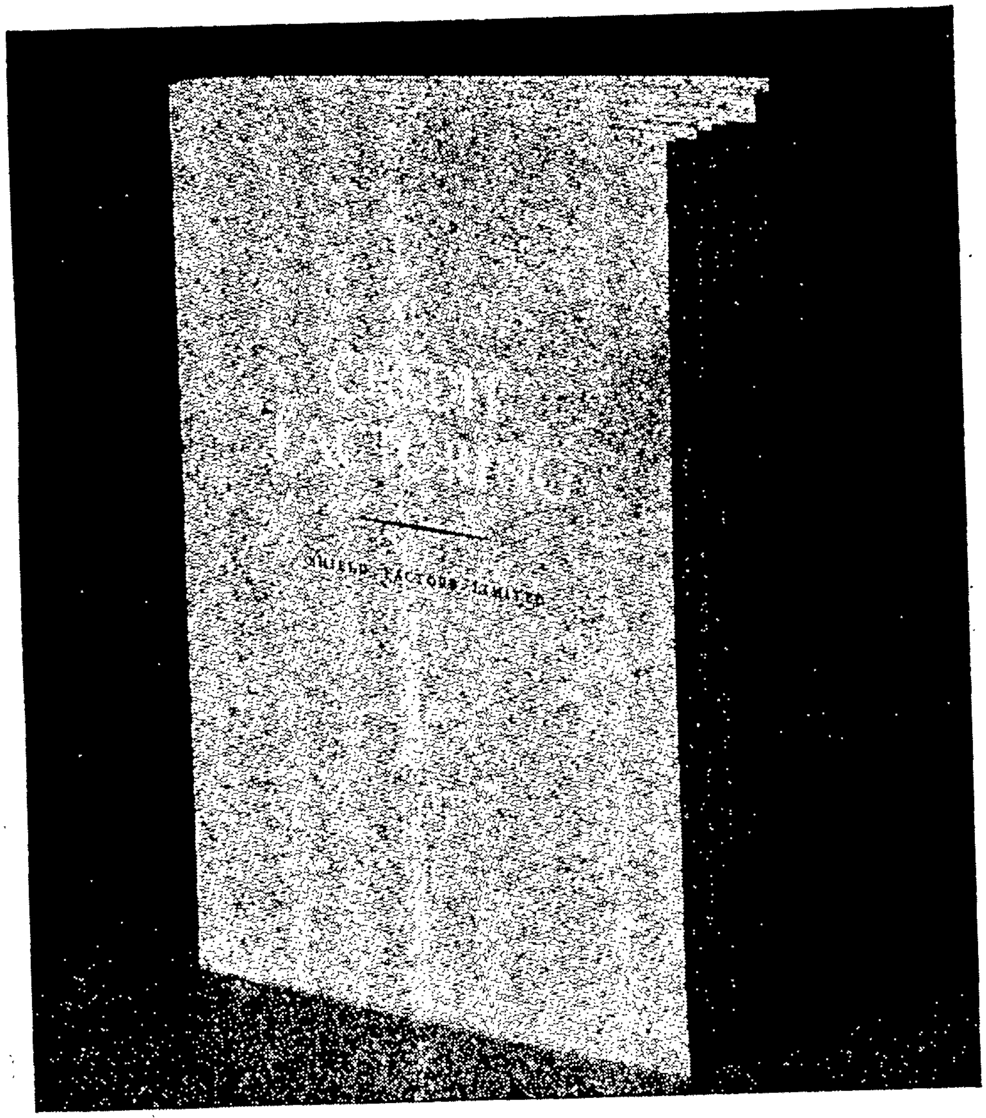
5. QUOTED INVESTMENTS
The Quoted Investments are quoted on Stock Exchanges outside Great Britain.

6. SUBSIDIARY COMPANIES
The financial years of Eurocredit and its subsidiaries ended on 30th June, 1965 and 31st December 1964, respectively. The consolidated accounts of Lloyds and Scottish Limited for the year ended 30th September, 1965 incorporate the figures of the Eurocredit group for their financial years ended as noted above. The financial years of the other overseas subsidiaries ended on July 31st, 1965.
The financial year of one U.K. subsidiary ended on 5th November, 1964 and its accounts for that period are included in the consolidated accounts for the year to 30th September, 1965.
For the financial years of the foregoing subsidiaries to have coincided with that of Lloyds and Scottish Limited would, in the opinion of the Directors, have been impracticable or would have caused undue delay in the submission of the group accounts.

7. RATES OF EXCHANGE
Assets and liabilities of overseas subsidiaries have been converted into sterling at the approximate rates ruling at the end of their financial years.

8. CONTINGENT LIABILITIES
There are contingent liabilities amounting to £1,998,000 (1964 £2,235,000) in respect of uncalled capital in, and bills discounted and bank overdrafts guaranteed by, subsidiary companies.

9. CAPITAL COMMITMENTS
Capital commitments by subsidiary companies not provided for in the accounts, amount to £620,000.



Restrictive practices

Another decision affecting the company and the hire-purchase finance industry as a whole was the Restrictive Practices Court's ruling that the Finance Houses Association's trade agreement, which fixed a ceiling on commissions paid to motor traders for the introduction of hire-purchase business, was not in the public interest and must be abandoned.

It remains to be seen whether the commission war, which the Finance Houses Association agreement stopped, will flare up again to the disadvantage of the finance companies and, Mr Macdonald considers, 'in the longer run to the detriment of hirers'.

The current view inside the hire-purchase finance industry is that a commission war is unlikely by reason of the fact that commissions already allowed are generous and that further generosity does not make business sense.

What does make sense, is the industry's view that all available evidence points to instalment finance as a growing industry, despite the periods of restraint that will be imposed from time to time when, as now, the economy becomes overheated.

CITY NOTES

UNCERTAINTY in fixed interest stocks and a degree of hopeful strength in equities combine to make a complicated stock-market pattern. News of the £60 million British Petroleum rights issue took the edge off equities at the end of last week, but the Government's controversial investment incentive proposals helped, for a time at least, to put the edge back on again.

For the time being, as it invariably is at this time of the year, the equity market is not being tested to any great degree by industrial company profit statements. Over the next few weeks, however, company results may be making a bigger impact on equity sentiment than they are at present.

January very often sees a tentative and hopeful equity rise but this equally often fails to hold up, particularly when the Budget begins to come into market reckoning. The reckoning this year can hardly be made on an optimistic basis and it will be surprising if equities as a whole can maintain any real degree of strength.

The B.P. rights issue could serve as a reminder that the debenture market may be showing signs of closing up, and if circumstances force industrial companies into rights operations, the effect on equities would not be exactly bullish.

Debenture borrowing terms are getting decidedly tight, with the coupon rate at 7½ per cent where smaller industrial borrowers are concerned.

THE London Stock Exchange is taking a closer look at the question of directors' remuneration in the context of take-over bids and mergers. The view is that information on this point should be made clear by the bidding company, and the Stock Exchange would decide whether or not the circumstances called for disclosure to shareholders and to the investing public in general.

The basic point is that, as a general rule, the Stock Exchange would consider that any change in directors' remuneration resulting from a merger should be disclosed. Recent events have shown that there is certainly scope for a tighter watch to be kept on this particular point.

* * * *

ON Monday the Midland Bank announced a 'cheque card' service which it describes as an extension to the existing cheque system. Customers of Midland will be supplied, on application, with a card on which there will be a number. On producing this card and having that number recorded on the back of the cheque, the customer will have his cheque guaranteed by the bank up to an amount of £30. There will be no charge to customers or the suppliers of goods. The scheme will start sometime in March, and cards will be renewable every six months. Customers holding a card will also be able to cash cheques up to £30 at any of the 3,242 branches in the Midland group.

RATES AND PRICES

Closing prices, Tuesday, January 18th, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Nov. 12 ..	£5 9s 4·09d%	Dec. 17 ..	£5 10s 3·74d%
Nov. 19 ..	£5 9s 2·90d%	Dec. 23 ..	£5 10s 5·88d%
Nov. 26 ..	£5 7s 10·72d%	Dec. 31 ..	£5 10s 5·08d%
Dec. 3 ..	£5 7s 5·32d%	Jan. 7 ..	£5 10s 5·20d%
Dec. 10 ..	£5 9s 4·64d%	Jan. 14 ..	£5 9s 9·73d%

Money Rates

Day to day ..	4⅜–5⅛%	*Bank Bills*	
7 days	4¼–5½%	2 months ..	5⅞–5 15/16%
Fine Trade Bills		3 months ..	5⅞–5 15/16%
3 months ..	7–7½%	4 months ..	5⅞–5 15/16%
4 months ..	7–7½%	6 months ..	5⅞–5 15/16%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2·80 11/32	Frankfurt ..	11·25¼
Montreal ..	3·01 9/32	Milan	1752½
Amsterdam ..	10·14 3/32	Oslo	20·03
Brussels	139·57	Paris	13·74 15/16
Copenhagen ..	19·31	Zürich	12·15¼

Gilt-edged

Consols 4% ..	59 13/16	Funding 6% 1993 ..	94⅛
Consols 2½% ..	38 11/16	Savings 3% 60–70 ..	85⅝
Conversion 3½% ..	53 13/16	Savings 3% 65–75 ..	74 1/16
Conversion 5% 1971	93	Treasury 6½% 1976	98⅞
Conversion 5¼% 1974	92⅛	Treasury 3½% 77–80	74¼
Conversion 6% 1972	97¼	Treasury 3½% 79–81	71¼
Funding 3½% 99–04	58 11/16	Treasury 5% 86–89	82¼
Funding 4% 60–90	92⅞	Treasury 5½% 08–12	85⅞
Funding 5¼% 78–80	87⅞	Treasury 2½% ..	38¼
Funding 5½% 82–84	89	Victory 4%	96⅛
Funding 5¾% 87–91	91⅜	War Loan 3½% ..	53 1/16

Asian and Pacific Accountants' Conference

DELEGATES from fifteen countries including India, Australia, Canada, New Zealand, the United States, Japan and South Korea attended the fourth Asian and Pacific Accountants' Conference held in New Delhi from November 29th to December 2nd. The conference, which was organized by The Institute of Chartered Accountants of India and The Institute of Cost and Works Accountants of India, was the first such conference to take place in India. A wide range of subjects and problems related to the profession were discussed, including management accounting, taxation, education for the profession, auditing and computers. We summarize below some of the papers and comments made at the five technical sessions.

Welcoming delegates, Mr C. C. Chokshi, F.C.A., Chairman of the Conference Committee, and a former President of The Institute of Chartered Accountants of India, said that the primary purpose in holding the conference was the pooling of resources, talents and experience of all those who understood the language of accountancy. He stated that the delegates present represented mainly developing countries and they had a positive role to play in the determination of proper economic and fiscal policies, advancement of trade, commerce and industry. He added that the development and prestige of the profession depended largely upon the ability of the members to develop new techniques.

Inaugurating the conference, the Chief Justice of India, The Honourable Gajendragadkar, paid tribute to the consistent manner in which the profession in India had progressed. He stated that in the last two decades law and accountancy had become dynamic instruments affecting the socio-economic policies of the State.

There was, however, he declared, a need for accountancy to be more communicative, the concept of fairness in accounts needed to be extended and it was also important for the profession to acquire a knowledge of other developments affecting accountants.

The inaugural session was then addressed by Mr A. K. Roy, Comptroller and Auditor-General of India, and Mr S. L. Kirloskar, President of the Federation of Indian Chambers of Commerce and Industry.

Examining the scope of audit in public sector undertakings, Mr Roy stressed the importance of devising auditing methods whereby in view of the rapid growth of public sector enterprises, an assessment could be made of the efficiency of such undertakings.

Mr Kirloskar stated that the accountancy profession and business enterprises were mutually self-supporting and it was only by pooling accounting and business knowledge and experience that an enterprise could be successful and profitable, not only in the commercial sense but also by reference to the social environment in which it operated.

International accounting agency?

The first technical session on 'Accounting' commenced in the afternoon under the chairmanship of Mr L. A. Braddock, of Australia, and the co-chairmanship of Mr D. D. Kalra, of India.

Five papers were presented, three by delegates from the United States, Canada and Australia, and two by delegates from India, all of whom emphasized the necessity for the creation of an international agency which could help the implementation of uniformity of accounting terminology, accounting procedures, accounting principles and auditing standards. The need for such an agency, it was felt, arose because of the very wide extension of commercial operations, the growth of international joint ventures and the movement of capital and personnel between nations. The ultimate aim would, therefore, be the creation of an accounting system whereby financial statements prepared in any area of the world would be acceptable.

The other major conclusion emerging from the discussion was the feeling that greater disclosure needed to be made on the results of corporate enterprises, mainly in the form of subsidiary statements showing matters which affected the working of such concerns but which were not separately reflected in the accounts. It was felt that this could be achieved by a closer liaison between accountants both in industry and in practice.

Responsibilities of auditors

The second technical session, which was on 'Auditing', was under the co-chairmanship of Mr G. Basu, a former President of both the host Institutes, and Mr C. P. Mukherjee. Mr W. G. Rodger, of New Zealand, and Messrs J. H. Jamison and P. J. Davidson, of Australia, were among the authors who contributed papers at this session.

During the course of a lively discussion by a panel of speakers, there was a general consensus about the views expressed by the Australian authors on the responsibilities of auditors in the detection of management frauds. Both Mr Jamison and Mr Davidson expressed the opinion that it was not the duty of auditors to detect management frauds, and that so long as they had performed their functions conscientiously and effectively they had performed their duties in full.

Tax structures

In the session on 'Taxation', which was under the co-chairmanship of Mr K. Tsukada, of Japan, and Mr P. Brahmayya, President of The Institute of Chartered Accountants of India, Mr M. P. Chitale expressed the need for changing the tax structure in India with a view to encouraging capital formation and equity participation by entrepreneurs.

Papers were contributed by Mr R. Rahman (Pakistan), Mr Byong Il Choi

(South Korea), Mr W. Sycip (Philippines), Mr Touru Takezaki (Japan), and Mr M. P. Chitale and Dr R. C. Cooper (India). During discussions from the floor, several speakers reported on practices followed in their respective countries for providing tax incentives. In answer to questions on his paper, Dr R. C. Cooper referred to certain tax incentives which were not fully appreciated by the public. He quoted as an example the liberal tax concessions for scientific research expenditure in India.

Management accounting

The fourth technical session was held under the co-chairmanship of Mr John J. Deering, of the U.S.A., and Mr Raghu Nath Rai. The subject for discussion was 'Management accounting'.

Two technical papers were presented on 'Profitability as a tool in product planning', one by Mr J. R. M. Wilson, of Canada, and the other by Mr R. Rajagopalan, of India. Mr Wilson suggested that although product planning belonged primarily to the world of marketing, accountants had a significant part to play in developing techniques, and classifying and assessing data presented to management. Mr Wilson also emphasized the importance of co-operation between the accountant and the product planner.

'Management accounting techniques for small- and medium-sized industries' was the subject of two papers, by Mr P. S. Khanna and Mr S. K. Mitra. These papers were illustrated by practical case studies, and involved consideration of the special problems of small industries and suggestions for their solution.

In a paper presented on 'Capital expenditure – planning and control', by Mr K. K. A. Ramachandran, the emphasis was on this subject in the context of developing countries like India, and a distinction was made between capital expenditure on maintaining capacity as contrasted with capital expenditure on development and expansion of existing capacity. The session was enlivened by a very technical discussion by several panel speakers. Mr J. A. Wilson, of Canada, and Mr H. G. West, of New Zealand, said that India was probably at the cross-roads in the field of management accountancy and it was felt by both these speakers that accountants should seize the opportunity and the initiative of providing management services to industry thereby taking the profession into new spheres of useful activity.

The fifth technical session was under the co-chairmanship of Mr S. N. Desai, of India, and Mr J. R. M. Wilson, of Canada, to consider a subject which was extremely topical for the concluding session – 'Professional development'.

At this session two papers were presented on 'The impact of electronic computers and other scientific devices on accounting and auditing techniques', by Mr Max S. Simpson, controller of The Socony Mobil Oil Co, and by Mr David O. Gillette. Both papers emphasized the rapid development of computer technology, but it was pointed out, however, that while computers made a significant impact on accounting practices they did not affect basic accounting principles.

Universities and the profession

'Modern trends in accountancy training' was the subject of two papers, one by Mr K. A. Middleton, of Australia, and the other by two delegates from India, Mr B. R. Malhotra and Mr Y. H. Malegam. Mr K. A. Middleton's paper reflected the trend in Australia to rely more and more on university education for professional training rather than on training under articles and correspondence courses. The Indian authors on this subject also drew attention to the prevailing controversy on the subject in India and suggested a judicious mixture of the different types of training.

During the course of the discussion, emphasis was placed by delegates on the necessity for attracting the best available talents from universities into the accountancy profession and the need to stimulate public interest in the profession. For the same reason it was felt that professional accountants should develop greater contact with universities as lecturers as well as by participating in refresher courses which might be organized by universities jointly with professional bodies.

One delegate stressed the need for a committee of international accountants for the purpose of suggesting accounting procedures suitable for automation, as well as an international organization of accountants to pursue the goal of professional development beyond national frontiers. The need for partnership between accountants practising in various countries as well as between accountants and members of allied professions was referred to by Mr S. V. Ghatalia, who presented a paper on 'The role of an accountant in modern economy'.

Concluding session

The principal guest at the concluding sesssion was Mr Chester Bowles, United States Ambassador in India. He stated that the profession had 'a glorious future'. With the developments in electronic and other techniques which were certain to assist the development of the profession, a great responsibility lay on the profession to keep pace with the advancement of science.

In his closing address, Mr C. C. Chokshi, Chairman of the Conference Committee, summarized the important conclusions which were reached after the four-day deliberations. It was repeatedly stressed, he said, that the accountancy profession was at the cross-roads and it must take urgent steps to avail itself of the opportunities as an agency to aid management or be left behind. To this purpose its activities on training and education had to be intensified and it must expand its educational scope to cover disciplines which could enable it to render integrated services to management.

Mr Chokshi said an unfortunate impression had been created that the auditor in the private sector was not as independent as the auditor in the public sector. It was clear from the deliberations of the conference, he said, that the auditor in the private sector was appointed by the shareholders and not the management and enjoyed complete independence. Any attempt to change this system would reduce the independence of the auditor rather than increase it.

While the need for a common international terminology was admitted, Mr Chokshi continued, it was felt by the conference that this was not an entirely practical proposition and the same results could be achieved by a better understanding amongst accountants and through the disclosure of more vital information in published accounts.

Next Conference

Mr Chokshi announced that the next Asian and Pacific Accountants' Conference will be held at Wellington, New Zealand, in February or March 1968.

Equipment in the Office

City and County Partnership in E.D.P.

THE County of Norfolk and the City of Norwich, which together administer an area of more than 2,000 square miles with a population of over half a million, are to set up a joint computer centre which will be based on an English Electric Leo Marconi System 4/30 computer. It will be installed in two years' time in the new County Council offices being built in Norwich.

Norwich was the first local authority in Britain to install a computer, in February 1957, having used punched-card processing since 1923. Norfolk has had a small computer since October 1964, having started using a punched-card system soon after the war. The existing computer staff of both councils will join the new centre.

The jointly owned computer will do work for nearly all the departments of the two councils. The systems and procedures of the two will be standardized as much as possible to enable the same computer programs to be used for work common to the two councils, such as preparation and calculation of payrolls, payment of creditors, loan records, debtors' accounts, quantity surveying and health, education and police statistics. There is a joint payroll of 18,000; the two councils together pay 8,000 invoices each fortnight and in a year issue 200,000 cheques. Systems are being planned in such a way that the twenty-seven district councils in the county can, if they wish, have their work processed at the joint centre.

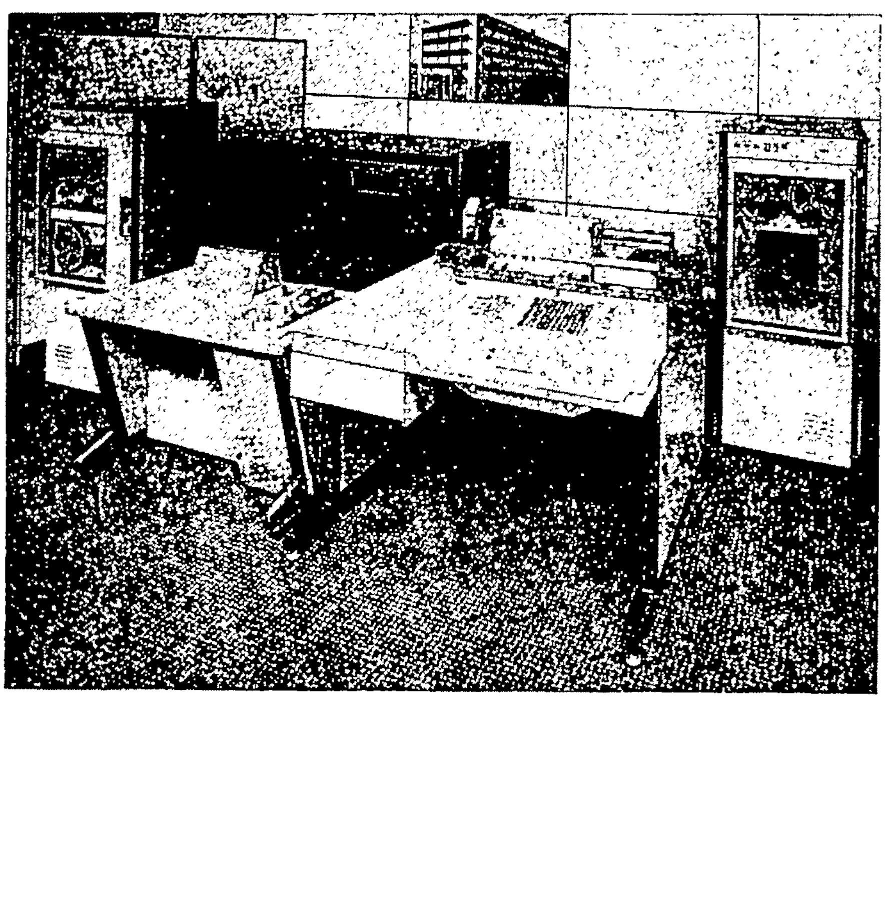
N.C.B.'s Gateshead Computer Centre Firmly Established

ALL wages and salaries in the Northumberland and Durham Division of the National Coal Board are now being processed at the divisional computer centre, Team Valley, Gateshead.

It is little more than two years since the centre was opened, in line with the National Coal Board's decision to apply electronics procedures throughout the mining industry. Starting with one I·C·T 1301 computer, there has been a steady build-up in the work handled at the centre, where an additional two I·C·T 1301 computers are now operating.

The streamlining of wages procedures throughout the Division has been accompanied by a growth in the volume and variety of work done at the centre, to make it one of the largest and most important commercial computer applications in Britain. An example of the work done at the centre is shown by the fact that it deals with wages and salaries for 87,000 mineworkers, 9,000 ancillary workers and 8,000 staff, as well as 7,000 superannuation and 12,400 mineworkers' pension scheme payments. In addition, the centre handles invoices for the dispatch of some 30 million tons of coal a year, and deals with materials redeployment for purchasing and stores.

Increasingly, the computers are being used as an aid to management by the application of operational research techniques to increase efficiency at the collieries. All major reconstruction schemes are progressed by computer



N.C.R. Series 500 Computer

N.C.R.'s latest low-cost computer, the Series 500, was first shown in Britain at the Business Efficiency Exhibition in October. It can operate as a 'visible record' computer, a punched tape computer, a punched-card computer or any combination of all three. Over twenty different peripheral units have been designed for the system.

The picture shows a punched paper tape configuration. From left to right: paper tape reel reader; paper tape strip reader; control console with carriage printer; and paper tape punch. Behind the paper tape strip reader is the central processor.

to give information enabling planning engineers to see what is required to meet completion dates.

A system devised at the Team Valley centre may be introduced to other National Coal Board divisions. This is for the payment of mineworkers' pensions by the production of a punched card. Arrangements have been made with one bank as a result of which payment is made to 12,400 pensioners in exchange for the card, the punched holes on which contain all information relating to the recipient and the amount due, and are processed by the bank's machines as well as the Board's.

'Capturing' Retail Information at Point of Sale

A NEW retail automation system designed to give shop customers wider choice of merchandise and at the same time provide a substantial reduction in inventory counts was announced recently by the National Cash Register Company.

Known as REACT (Register Enforced Automated Control Technique), the new system features the efficient 'capture' of precise merchandise descriptions in code at the point of sale and is designed to eliminate laborious inventory counts, uninformed buying decisions, and various manual methods of store control. The key to the method is a register which compels the sales person to describe each item as it is sold. Using this information, the computer develops reports for store management on inventory levels and stock turnover of up to 10,000 different items per department.

The major advantage of REACT is that the descriptive information which is 'captured' at the point of sale as the merchandise is moving out of the store requires no additional manual steps to keep track of the goods, as the computer takes over from there. In this way, inventory information is locked in with the store's cash control system, minimizing the possibility of error.

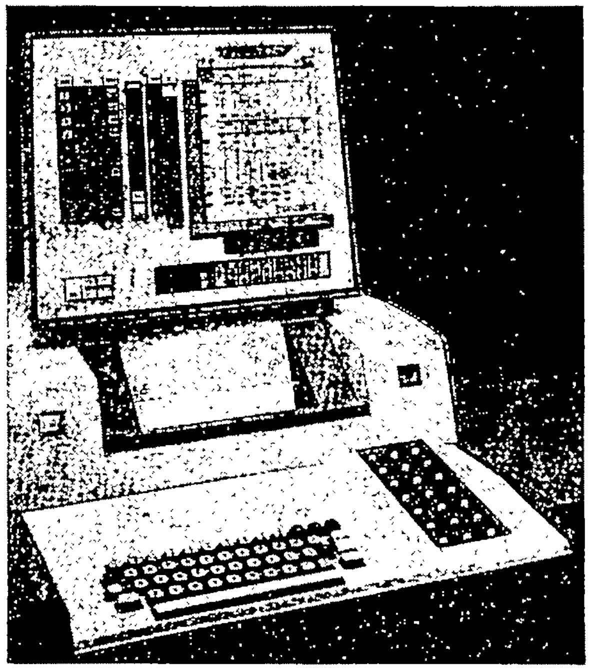
The record of the sale, including the merchandise description, is recorded for the computer either in punched holes in paper tape or in electronically legible characters printed on the journal tape inside the register. The special N.O.F. (N.C.R. Optical Font) characters can be read visually by store personnel as well as by computer.

Under the new method, the computer automatically produces sales and stock reports, open-to-buy reports, on-order reports and other retailing information. Using formulas established by the buyers, the computer will automatically print out vendor orders for additional items when the stock reaches a minimum level.

Ministry of Aviation's E.D.P. System

THE Chessington branch of the Ministry of Aviation has taken delivery of an I·C·T 1903 computer which is intended primarily for the calculation of salaries and wages for 30,000 employees of the Ministry and the National Assistance Board, and to intersperse a varied range of recording and accounting work.

The installation consists of a 1903 central processor with an 8,192-word core store and a store cycle time of two microseconds. Peripheral equipment includes a paper-tape reader operating at 1,000 characters per second, a paper-tape punch at 110 characters per second and a 1,350 lines per minute printer. Auxiliary storage is provided by four magnetic tape decks operating at 20,800 characters per second.



British European Airways, in the second stage of their automatic seat reservation system based on twin Univac 490 Real Time Computers, are using Westrex Teletype Model 35 Printers (as pictured above).

The printers are an integral part of the Uniset complexes used by BEA telephone sales clerks at West London Air Terminal to interrogate the computer system as to seat availability on any of BEA's flights throughout the U.K. and Europe, and to subsequently insert into the system details as to passengers' names, addresses, telephone numbers, and special requirements. Since its installation, the automatic seat reservation system has operated twenty-four hours a day, seven days a week.

Performance Recording System

AT their Basildon Works, Carreras Ltd are eliminating hand-written logs and analyses and are to install the DAMSEL performance recording equipment developed by Allen West Automation Ltd.

DAMSEL (Data Automatically Monitored, Selected and Electrically Logged) sends out electrical pulses every minute to monitor idle/working condition direct from contacts within the cigarette-making machines themselves.

Data is recorded from sixty-six machines, each of which is provided with a ten-pushbutton coding unit and maintenance key enabling the operator to give immediate indication of the cause of failure of any individual machine.

Every minute DAMSEL produces one standard eighty-column punched card, giving for the sixty-six machines an idle/working record with time and date, and the reasons for stoppage from the coding unit. Together, these cards provide a full production-line record: they are then fed to a computer to give detailed analysis of machine downtime and use.

The main control station, in the factory's production control office, is housed in a steel cubicle about 4 ft high by 2 ft 6 in. by 2 ft, and there is, in addition, the standard DAMSEL remotely controlled typewriter readout – one line of type corresponding to one punched card – so that the controller has before him a compact chart giving an im-

mediate overall picture of the activity of the plant at that particular moment.

Allen West Automation Ltd, Brighton 7.

To Prevent Forgery

COPY-FIX, the carbon-backed paper, is now available in a new security coating to counteract the forgery of airline tickets, travel vouchers and similar documents.

Security-coated COPY-FIX is produced by processing with an exclusive pattern of multi-colour carbon. The pattern, which incorporates combinations of black, blue, red or green carbon, is prepared for each individual company requiring security coatings. The coatings cannot be copied by any other user because the manufacturers, Sinecarbon Paper Sales Ltd, will not duplicate the pattern. As an added precaution users may change their security coatings at intervals.

Paper Sales Division, Gordon & Gotch Marketing Ltd, 7 Western Road, Mitcham, Surrey.

The ENM Combined Hand and Desk Tally Counter with new moulded plastic base.

Tally Holder

THE ENM HAND TALLY is now being supplied complete with a separate base that converts it into a desk tally. There is no increase in price and the combined hand and desk tally costs 40*s*, inclusive of the new base.

The tally displays four black figures on a white ground and one count is added for each depression of the plunger. Resetting to zero is by rotation of the knob on the right-hand side of the counter. It is contoured to fit snugly in the palm of the hand.

English Numbering Machines Ltd, 25 Queensway, Enfield, Middlesex.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS ANDREWS & Co, Chartered Accountants, announce that their address is now 93–95 Borough High Street, London SE1. Telephone Hop 4023.

MESSRS BANNER, SPENCER, WALKER & MOORS, Chartered Accountants, of 11 Old Hall Street, Liverpool 3, announce that as from January 1st, 1966, they have taken into partnership Mr ANDREW GERALD THOMAS, A.C.A., who has been with them since 1958.

MESSRS BERTRAM KIDSON & Co, of Wolverhampton, announce that Mr HARRY BURTON, F.A.C.C.A., retired as partner of the firm on December 31st, 1965; he will remain in an advisory capacity. They announce also that Mr JOHN MALCOLM FOSTER, A.C.A., who has been a member of the staff for the past twelve years, was admitted to partnership as from January 1st, 1966.

MESSRS MCLINTOCK, MOORES & MURRAY, Chartered Accountants, of 3 Albyn Place, Edinburgh 2, announce that Messrs SCOTT-MONCRIEFF, THOMSON & SHIELLS, Chartered Accountants of 17 Melville Street, Edinburgh 3, have become associated with them and that Mr G. C. PATTERSON, C.A., and Mr E. R. L. WALKER, C.A., partners in the latter firm, have been assumed as partners in MCLINTOCK, MOORES & MURRAY with effect from January 1st, 1966.

MESSRS THOMSON MCLINTOCK & Co, Chartered Accountants, of 216 West George Street, Glasgow, C2, announce that Mr ROBERT WESTWATER SPEIRS, C.A., Mr WILLIAM CHARLES CARNEGIE MORRISON, C.A., Mr GEORGE DAVID CALDWELL, C.A., and Mr BLAIR SMITH, C.A., who have been for some years senior members of the staff, were admitted into partnership as from January 1st, 1966.

MESSRS PANNELL FITZPATRICK GRAHAM & CREWDSON record with deep regret the death on January 4th, 1966, of Mr KENNETH HERBERT FISHER, M.A., F.C.A., who had been a partner for thirteen years.

MESSRS ROOKE, LANE & Co, Chartered Accountants, of 2 & 3 Norfolk Street, London WC2, announce the amalgamation of their practice with that of Messrs BAKER, TODMAN & Co, Chartered Accountants, of Canada House, 4 & 5 Norfolk Street, London WC2, as from April 1st, 1966. The joint practice will be carried on under the name of BAKER, ROOKE & Co, at 2 & 3 Canada House and 4 & 5 Norfolk Street, London WC2.

MESSRS SCOTT-MONCRIEFF, THOMSON & SHIELLS, Chartered Accountants of 17 Melville Street, Edinburgh 3, announce that, whilst their separate practice will continue as before, they have become associated with Messrs MCLINTOCK, MOORES & MURRAY, Chartered Accountants, of 3 Albyn Place, Edinburgh 2. Mr G. C. PATTERSON, C.A., and Mr E. R. L. WALKER, C.A., who continue as partners in SCOTT-MONCRIEFF, THOMSON & SHIELLS, have been assumed as partners in MCLINTOCK, MOORES &

URRAY, with effect from January t, 1966.

MESSRS ALFRED SMITH, J. R. DOVE Co, Chartered Accountants, an-unce that as from December 1st, 65, they have admitted into partner-ip Mr A. W. NAISH, A.C.A. They also nounce the changing of the firm's me to SMITH, DOVE & PARTNERS.

MESSRS SWALLOW CRICK & Co, hartered Accountants, of Priestgate, terborough, announce that as from nuary 1st, 1966, they have taken to partnership Mr JOHN K. INGRAM, C.A., who has been on their staff for me years.

Appointments

r William McFadzean, C.A., has en elected to the board of The nglish Electric Co Ltd.

Mr R. B. Ogden, F.C.A., has been pointed chairman of the Law Courts oard of Eagle Star Insurance Co Ltd.

Mr H. Strong, A.C.A., has been pointed financial director of Platt others & Co Ltd.

BOARD OF TRADE ADVISORY COMMITTEE

Sir William Lawson appointed Chairman

he President of the Board of Trade is appointed Sir William Lawson, B.E., F.C.A., as chairman of the oard of Trade Advisory Committee om July 1st next, in succession to Ir W. K. M. Slimmings, C.B.E., C.A., ho has held the chairmanship since pril 1960, when the Committee was rmed.

Sir William, who is aged 66, was lucated at Lancing and at Trinity ollege, Cambridge. He is senior artner in Binder, Hamlyn & Co, hartered Accountants, and a member f the Council of The Institute of hartered Accountants in England and Vales; he was President of the Institute 1957–58.

The five other members of the ommittee include Mr Peter O. Villiams, C.B.E., F.C.A., a director of ynea Steel Ltd, Llanelly, and Mr eslie H. McRobert, C.B.E., T.D., C.A., former chairman of Cerebos Ltd.

The Board of Trade Advisory Committee (BOTAC) was set up under the Local Employment Act, 1960, and comprises professional and business men, none of whom are Civil Servants. All applications for loan assistance under the Act are determined by the Committee and all applications for building grants under the Local Employment Act, 1963, are referred by the Board of Trade to BOTAC for advice. Since April 1st, 1960 (the date on which the Act came into force), the Committee has considered 1,100 loan applications and has recommended loan assistance exceeding £87 million.

Sir William Lawson

Mr Ernest Sinnott

SEEBOARD CHAIRMAN

The Minister of Power has appointed Mr Ernest Sinnott, F.S.A.A., F.I.M.T.A., Companion I.E.E., to be chairman of the South Eastern Electricity Board from April 1st next, following the retirement of Mr H. V. Pugh, C.B.E., A.M.C.T., M.I.MECH.E., M.I.E.E., on March 31st. Mr Sinnott, who is at present the Board's deputy chairman, was President of The Institute of Municipal Treasurers and Accountants in 1956–57.

Educated at Salford Grammar School, he received his early professional training with a number of local authorities in Lancashire and in 1932 secured first place in the final examination of The Institute of Municipal Treasurers and Accountants. Two years later he took first place in the intermediate examination of The Society of Incorporated Accountants, gaining third place in the final examination in 1935. In that year he was appointed deputy borough accountant at Worthing and in 1937, at the age of 28, became borough treasurer there.

Mr Sinnott, who is now 56 years of age, was appointed Seeboard's chief accountant in 1948, becoming a member of the board in 1959, and three years later took up his present position of deputy chairman.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Electronic Data Processing Courses

The Institute of Chartered Accountants in England and Wales is this week holding a series of four electronic data processing courses at Brighton (from January 16th to 24th), which are being attended by some two hundred members who were successful in a ballot.

The courses are designed as an introduction to computers and the methods underlying systems of electronic data processing, and are therefore not too technical for the novice. The course members are drawn in about equal proportions from executive positions and from the offices of practising accountants, a fact which the Council of the Institute considers will promote a most useful exchange of views within the profession.

The final series of these introductory courses will be held in June this year, after which the content will be altered to keep in line with current developments in the use of computers.

New Examination Centre – Sheffield

Arrangements have been made by the Institute to open an Examination Centre at Sheffield commencing with the May 1966 Final examinations. Thereafter the centre will be available for all Intermediate and Final examinations.

REVENUE PAPER

HILARY SITTINGS, 1966

In addition to those cases listed as down for hearing in the Hilary Sittings in last week's issue, two further cases are on the House of Lords list:

Vandervell *v.* C.I.R.

Central & District Properties Ltd *v.* C.I.R.

UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

Members of chartered accountant students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who permanently change their district. The interchange should be carried out through the secretaries of the societies concerned.

Students' societies hold meetings in the following towns:

Bedford, Birmingham, Blackpool, Bolton, Bournemouth, Bradford, Brighton, Bristol, Cambridge, Cardiff, Carlisle, Chester, Coventry, Derby, Douglas, I.o.M., Eastbourne, Exeter, Grimsby, Halifax, Hastings, Hereford, High Wycombe, Huddersfield, Hull, Ilford, Ipswich, Kettering Leeds, Leicester, Lincoln, Liverpool, London, Luton, Manchester, Middlesbrough, Newcastle upon Tyne, Newport, I.W., Newport, Mon., Northampton, Norwich, Nottingham, Oxford, Peterborough, Plymouth, Portsmouth, Preston, Reading, Salisbury, Scarborough, Sheffield, Shrewsbury, Southampton, Southend, Stoke-on-Trent, Sunderland, Swansea, Truro, Tunbridge Wells, Wolverhampton, Worcester, York.

INSTITUTE OF ACTUARIES

New President

Dr Bernard Benjamin, PH.D., F.I.A., has been elected President of the Institute of Actuaries in succession to Sir Herbert Tetley, K.B.E., C.B., M.A., F.I.A., whose term of office will expire on June 13th. Dr Benjamin was recently appointed as the first Director of Intelligence of the Greater London Council. He was formerly Director of Statistics at the Ministry of Health, and has had a long career as a statistician in the public service.

ASSOCIATION OF LECTURERS IN ACCOUNTANCY

Views on Accountancy Education

The Association of Lecturers in Accountancy was formed in 1965 to bring together and help those engaged in accountancy teaching; also to further a better understanding of the issues involved, and to encourage a progressive policy amongst all those concerned with accountancy education.

The Association organized a conference at Slough College towards the end of last year (reported in *The Accountant* of December 18th) to consider the problem of accountancy training in the 1960s. As a result of views expressed at the conference, the Executive Committee of the Association has now issued a policy statement in the course of which it says that in order to avoid any unnecessary duplication of effort in colleges and in the light of present-day requirements, it is considered essential that there should be co-ordination of accountancy education so that colleges have the best advice and service to meet their commitments. Only by a planned approach will it be possible to avoid variations in standards and to make the best use of the resources available; and for this purpose it is the view of the Association that there should be a central co-ordinating body.

In the light of the foregoing, the Executive Committee of the Association makes the following proposals concerning accountancy training:

(1) That selected colleges should be approved for giving tuition to students of the recognized accountancy bodies. The nomination of these colleges should take into account the number and calibre of staff, tuition facilities and location.

(2) This nomination of colleges should be made by the Department of Education and Science in conjunction with the accountancy bodies.

(3) The work of such colleges should be co-ordinated by a national committee consisting of representatives of the Department, the professional bodies and the Association. The work of this committee to include providing liaison between the approved colleges and the professional bodies, discussions on raising the standards of effective tuition both in terms of the needs of modern industry and the profession, to create a central pool of information with a view to avoiding unnecessary duplication of effort and to ensure the continuous flow of new ideas. This should in no way inhibit the development of individual skills by lecturers or reduce the propagation of new ideas from individual colleges.

One result of this co-ordination, states the Executive Committee, would be to ensure that the training of accountants in colleges was raised to the appropriate level and would enable specialized attention to be given to the needs of the students. It points out that the adoption of this policy would go a long way to meet the needs of the country in this respect and would also help to ensure effective use of the limited and expensive educational facilities available.

These proposals have been put forward by the Association as a basis of discussion with the parties concerned.

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ON OTHER PAGES

Inland Revenue Audit

EVERY year the Inland Revenue, in common with other Government departments, has to render an account of sums received, and these accounts are examined by the COMPTROLLER AND AUDITOR-GENERAL who publishes his report on them. The Inland Revenue accounts are included in a volume entitled *Civil Appropriation Accounts*, Classes I–V, and that for the year 1964–65, just published,[1] contains a mine of information.

Last year the AUDITOR-GENERAL had a good deal to say about the extent of the delay by employers in paying over to the Inland Revenue the deductions they had made (or ought to have made) from wages and salaries under P.A.Y.E. This year he contents himself with a single paragraph on the matter. He says that reconciliation of the total amount notified by employers as having been deducted with the total of sums remitted to the Inland Revenue is controlled by means of an account which is charged with the amounts shown by the employers' returns as having been deducted, and credited with the sums remitted. The account for each income tax year to April 5th is closed in the following September and the balance carried forward to the next account. The amount charged to the 1963–64 account was £1,535 million and the amount still to be remitted by employers, when the account was closed in September 1964, was £6·4 million. Although this latter figure represents only a small proportion of the £1,535 million, it is remarkable that so many employers contrived to retain for so long so much money to which they had not the slightest title. In these days of high interest rates this represents a very real advantage. Added to the £6·4 million is the unknown amount represented by deductions made but not reported to the tax authorities. Of course, one must not forget the other side of the medal, namely, that every employer is forced willy-nilly to act as an unpaid, but highly harassed, collector of taxes.

The salaries bill for headquarters and Revenue local offices came to over £47 million; there being no less than three supplementary grants during the year ended March 31st, 1965. In the previous year the corresponding expenditure barely exceeded £45 million and there was only one supplementary grant. There is also an increase in the cost of the Valuation Office salaries; from £8,155,579 to £8,763,992. In this case there were two supplementary grants, as against only one in the previous year. All this was before the mammoth Finance Act, 1965, with its copious

[1] H.M.S.O. Price £1 4s net.

provisions for market valuation, was even published as a Bill. It is hardly a secret that the Department has still to begin grappling with the work caused by this Act; indeed the staff does not seem yet to have been told what it all means. Either there must be an immense increase in expenditure on staff, or the quality of the work must suffer.

Embedded in the summary of 'losses' by the Department is an item of £292 under the sub-heading 'Cash losses due to theft, fraud or arson'. The Revenue report that an unqualified accountant fraudulently obtained repayment of income tax due to a client. He was prosecuted and sentenced. There were 220 cases of irregular encashment of payable orders, costing in all £3,072, and overpayment of salaries, wages and allowances cost in all £282 and covered twenty-nine cases. Over-repayments of tax or post-war credits where the circumstances precluded recovery numbered 258 in all, causing an aggregate loss of £11,439. To state such figures is to compliment the Department on its careful hold on the purse strings – the amounts of losses are trivial compared with the vast sums handled.

What of the unrelenting struggle to combat fraud and evasion of taxes on income and profits? The latest statistics are as follows:

Year ended March 31st	*Number of cases*	*Total charges raised* £	*Penalties and interest included* £
1965	12,405	15,965,295	4,897,498
1964	12,216	15,563,617	4,655,467
1963	10,944	14,020,699	4,289,258
1962	11,868	18,770,906	5,200,427
1961	9,752	12,905,544	5,549,820
1960	13,734	19,642,073	8,491,884

The high proportion of penalties in the year to March 1960 stems from the fact that prior to the Finance Act, 1960, the Revenue could proceed for penalties on the basis of treble the whole of the tax for the year, regardless of the amount of tax on the omitted income. The 1960 Act was designed to stop this hardship, but at the same time to strengthen the Revenue's negotiating position. However, owing to its faulty drafting, back duty work had to be held up for the time being while the Revenue draftsman had second thoughts; hence the poor showing in the year to March 1961, and the overtaking of arrears in the following year. The process of back duty collection seems now to have settled down to a steady pace, but the new legislation has made everything so confused, and has so widened the area of liability, that inevitably there will be large underpayments which will require to be corrected in subsequent years.

The above statistics do not cover minor settlements effected by local inspectors relating to untaxed interest, or settlements with employers in respect of P.A.Y.E. tax underdeducted from employees. In the year to March 1965 there were 35,634 cases in the former category, and they amounted to £1,052,040. There were 1,819 cases in the latter category and they produced £691,718, including penalties. These latter figures have not previously been given.

In view of the fall in the value of money, and the general rise in incomes, one would have expected a rise in back duty recoveries in recent years. It may be that people are becoming more honest, but perhaps another reason for this lack of buoyancy is the lack of adequate numbers of trained staff to undertake the somewhat exacting duties involved in a back duty investigation.

Another figure which remains fairly constant each year is the total amount of tax remitted or written off as irrecoverable; for the year ended March 1965, it was £4,314,132; for the previous year it was £4,233,288. The former figure is analysed by reference to grounds for write-off as follows:

Remissions	£
On grounds of poverty	133,913
On grounds of equity	492,901
Miscellaneous: amount recoverable not sufficient to justify cost of proceedings etc.	410,726
Amounts irrecoverable	
Insolvency	2,229,847
Composition settlements	119,103
Realization of securities	68
Taxpayer gone abroad or untraceable etc.	927,574
	£4,314,132

When one analyses the total figure by reference to individual taxes, the result is as follows:

	£
Income tax	3,737,225
Surtax	217,596
Excess profits tax	165,874
Death duties	137,193
Profits tax	51,282
Other duties	4,962
	£4,314,132

Not included in the above figures is £18,095 remission of law costs.

That tax is not lightly written off is borne out by some figures of arrears in the AUDITOR-GENERAL's report. On the 1964 account, arrears of five years or more totalled no less than £23 million, made up of £13 million income tax, £2 million profits tax, and £8 million surtax.

Further Thoughts on Investment Incentives

IT may be a mistake to suppose that the sudden demise of investment allowances in the form of a tax rebate represents the last word in the matter. It will be recalled that within two years of their introduction in 1954, the allowances were suspended for all classes of outlay except ships, scientific research and, as may seem topical, fuel economy installations. It was over three years before the allowances returned to favour, and a similar period elapsed before they were raised to the scale recently abandoned. Clearly the lack of confidence resulting from these repeated changes militated against their declared purpose of influencing the pattern of investment, despite tapering-off rules for firm contracts.

The first fine careless rapture with which a new concession is greeted soon yields to criticism of anomalies, and investment allowances proved no exception. Adverse comment was heard from the capital-intensive industries which found that in periods of low profitability the generous scale of initial and annual allowances postponed the practical benefit of investment allowances to the distant future. Thus in its report in March 1964 (Cmnd 2300) the Richardson Committee made the point that over 90 per cent of the cost of plant was allowed for tax over five years, equivalent to a tax-free zone for gross returns not exceeding 15 per cent.

Moreover, the AUDITOR-GENERAL discovered that in similar circumstances dividends could be paid and permitted to generate tax recoveries without the Treasury ever having seen the colour of the money required for so-called repayments. In this context it is interesting to note from a publication by the Institute of Economic Affairs (Eaton Paper 5) last July, that the real value of investment allowances was related to marginal rates of tax in such a way that individuals could realize a tax-free gain by means of a purchase of an item of plant which was never put to use.

While such an occurrence must be rare, it indicates a field not affected by the changeover to corporation tax, and it has been suggested that the encouragement of projects of sub-marginal value is likely to have been a more significant by-product of investment allowances than the growth of those which might command acceptance by reference to profitability exclusive of tax considerations.

It may be significant that investment allowances have played a part in the development of television and other equipment renting concerns, a further irritant to purists whose mental image of a production system slanted towards export excludes fripperies thought to be characteristic of the service and distributive industries. These are singled out for attack by the recent White Paper on *Investment Incentives* in the context of the need to strengthen the balance of payments and there is evident disregard for the contribution in this direction made by such sectors as the hotel industry, finance, entrepôt and overseas trade. The newly publicized measures appear equally apt to encourage the processing on foreign plant located in the north and west of imported materials for internal consumption. If regional needs are so urgent, would not the reintroduction in the over-populated areas of the stillborn payroll tax have a more direct effect in encouraging employment elsewhere?

Another point made by the Richardson Committee was that direct taxes exercise little influence on business investment decisions (a view criticized in *Taxmanship*, Hobart Paper 26, from the Institute of Economic Affairs in July 1964). Nevertheless, the abandonment of the 'broad brush' approach in favour of grants involving refined distinctions between investment categories will have to be paid for by a substantial administrative outlay. The White Paper calls for documentation by means of invoices and receipts or their equivalent and, where relevant, contracts. The increased staff required by the Board of Trade will be matched by industry and the whole scheme is in marked contrast to the economy of administration of investment allowances, claims for which were settled by accountants in the routine of agreeing tax liabilities.

The early date of payment of grants was stressed by the White Paper – a feature already blighted by a Board of Trade announcement. It seems that hopes of any advance in the eighteen month dead-line for payment must take their place with the shades of unpaid Post-war Credits. It would not surprise us to learn ere long that the new proposals are to yield place to yet another variant of the economic carrot.

History of Taxes

FOR harassed practitioners currently struggling with the complexities of last year's offerings from Messrs KALDOR and CALLAGHAN, it may be some slight consolation to learn that there has never been a time in Britain – not, at least, since the Romans – when taxes were not a problem. According to STEPHEN DOWELL's classic *History of Taxation and Taxes in England* – just republished after many years out of print[1], – 'ancient Britain may be regarded as beyond the range of our fiscal history', but what has happened since makes absorbing reading.

On acquiring the English crown, WILLIAM THE CONQUEROR imposed no new taxes. The Jews were substantial – albeit forced – contributors to the medieval kings until they were expelled by EDWARD I in 1290, but there were other sources of revenue, too. DOWELL quotes the Exchequer Rolls as follows: 'the wife of HUGO DE NEVILL gives to the King 200 hens to sleep with her husband for one night', while the BISHOP OF WINCHESTER is recorded as owing the King (JOHN) 'a tonell of good wine for not reminding him about a girlde for the COUNTESS OF ALBEMARLE'. Just what lies behind these evocative entries is not, however, explained.

It was not long before the barons and knights, who were required to serve the king together with so many men from their estates in his military campaigns, found it easier to pay him 'scutage' and thereby gain exemption. The frequent demands for scutage were ultimately a factor in the rift between JOHN and his barons and the thirty-second Article of Magna Carta lays down when the king is entitled to this tax. Its successor, 'tallage', was based upon a fraction of the taxpayer's rents and moveable chattels. The value thereof had, in the case of the nobility, to be sworn before the king's commissioners on pain of confiscation and imprisonment.

Tallage, better known as the 'fifteenths and tenths', these being the usual fractions, lasted for about four centuries. In addition to these revenues the king collected dues at the ports. There were also payments for the granting of monopoly charters and these reached a peak in Elizabethan times. Good Queen Bess owed, according to DOWELL, more than a fraction of her subjects' loyalty to the fact that she was modest in her demands on their purses. Since the Queen was by circumstances forced to be parsimonious, it is understandable that the contributions of DRAKE and his colleagues should have been especially welcome.

By the eighteenth century the Government was driven back to the land tax, which was in effect a charge upon rents. It did not, however, prove helpful in obtaining contributions from the increasingly wealthy merchants and manufacturers. For this reason it became necessary to impose taxes upon 'persons living in a certain style'. Typical of these were the house tax and the window tax, the effects of which are still evident today. In addition, there were taxes on carriages, coats of arms, on men servants and also on maid servants. The latter tax, recounts DOWELL, 'gave rise to a good deal of amusing comment within and outside the House, and more particularly, to many jokes of free description'.

The French wars forced PITT to introduce his Triple Assessment which proved a failure. This was followed by the introduction of the income tax of which DOWELL wrote: 'of all the burdens that one after another had been heaped upon the shoulders of the British taxpayer during the progress of the Great War [i.e. 1783–1815], by far the most grievous was the income tax at 10 per cent'. DOWELL refers to the numerous petitions against the tax, not least from the citizens of London, and the lengthy debates in Parliament before the tax was finally abandoned. The objections to the tax were understandable. It was grossly unfair in its operation due to evasion and false returns. This state of affairs persisted during the middle of the nineteenth century, well after the tax had been revived by PEEL in 1842.

When DOWELL entered the Revenue service in 1863, the Board had been in existence only fifteen years and was responsible for all taxes and dues. The Board of Customs and Excise was not created until more than a decade after DOWELL's death, hence the extraordinary breadth of DOWELL's fiscal interests. His greatest work, the *History* went into a second edition in 1888, only four years after the appearance of the first. DOWELL knew, or at least wrote little, of the great debate on equity in taxation which enlivened the third quarter of the nineteenth century; he died several years before HARCOURT introduced the graduated estate duty in 1894. We, however, living just over a century after his entry into the Department, can still enjoy this reminder of DOWELL's considerable literary output and, even more, his undoubted scholarship.

[1] Four volumes; third edition with introduction by A. R. ILERSIC. Published by Frank Cass & Co Ltd, London WC1. Price 15 gns.

distributions to shareholders. Once again the Schedule E expenses rule is attacked as being too restrictive.

On capital gains the Institute would like to see a lower rate, or a rate adjusted by reference to length of ownership. The option to adopt the April 1965 valuation should be exercisable more than two years after the disposal.

Current Affairs

Morbid Obsession

THE Finance Act, 1965, and the Government statements on the sections dealing with close companies, reveal a morbid obsession with the prevention of tax avoidance and a regrettable lack of understanding of such companies' problems. This is one of the allegations in a strongly-worded letter which Lord Renwick, on behalf of the Council of the Institute of Directors, has sent to the Chancellor of the Exchequer.

As to the penal tax on distributions, the Institute says there is no evidence whatsoever to show that a high level of retained profits makes for efficient and economic use of capital resources. It cites in support both the majority and the minority reports of the Radcliffe Commission, as well as the German system of taxation which encourages distributions. The suggestion is made that the withholding tax on distributions should be much lower than 8*s* 3*d* in the £, with corporation tax charged at such a rate as to maintain the necessary revenue, provided that this is used to frank dividends.

The letter complains of the very wide definition of close companies, of the restrictions on directors' remuneration, and of the unduly restrictive definition of 'whole-time service director'. It suggests that the test should be whether remuneration is paid on a commercial basis and commensurate with the services rendered. Interest paid by close companies should be allowed, provided it does not exceed Bank rate by more than, say, 2 per cent. On the wider front the Institute of Directors recommends that provision for future redundancy payments should be deductible, and that relief for overseas tax should be extended to distributions to shareholders. Once again the Schedule E expenses rule is attacked as being too restrictive.

Prospect of Increased Irish Taxation

THE Irish Minister for Finance, Mr J. Lynch, has predicted additional taxation in the Republic's Budget for 1966–67. Speaking at a certified accountants' luncheon last week, he explained that an analysis of current figures published with the Exchequer statement for the nine months ended on December 31st, 1965, showed a difference of £16 million between current revenue and expenditure, compared with a gap of £10 million on December 31st, 1964. The deficit would be less by the end of March next but it would still be high.

'In making plans for 1966–67', he said, 'my first duty is to arrange our finances so as to avoid running a deficit on current account. A level of current Government expenditure which could not be financed from current income would make it necessary to borrow for ordinary day-to-day purposes at the expense of investment in national development, a process I have heard described as 'eating the seed potatoes'.

He said that the 1966–67 Budget could not be expected to be balanced without additional taxation, but this would be no more than was absolutely necessary to maintain essential services.

It is known that the Irish Government is pruning its capital and current expenditure ruthlessly as a corrective measure against the present adverse economic conditions. The introduction of a capital gains tax, hitherto unknown in Ireland, as well as increases in the present rates of income tax and turnover tax, are said to be under review in the Department of Finance.

However, the Minister expressed his belief that the difficulties confronting the economy were only temporary, so it is hoped that the raid on the seed potatoes – a precedent of ill-omen in famine days – will not be too drastic.

Eighth Industrial Survey

IT is difficult to be sure what interpretation to put on the latest survey carried out on industry by the National Institute of Economic and Social Research. The survey was made in December 1965 among 130 firms employing nearly one million persons in the metal using industries. These last are defined as motor vehicles, mechanical engineering, electrical engineering and 'other metal goods'. In addition, a postal questionnaire was sent to fifteen large firms in the

chemical and paper industries employing altogether over two hundred thousand persons.

The results are provisional. Small firms are not adequately represented in the sample, according to the Institute, and it shows the aggregate experience and expectations of a number of firms in some industries and not in the economy as a whole. The Institute is therefore guarded in reading into the results more for the economy as a whole than can be strictly justified.

In engineering, one of the main findings of interest is the limitation on output in 1965 accounted for by labour scarcity rather than lack of orders. They look forward in this industry to an 8 per cent increase in output in 1966. Exports are expected to rise by 8 per cent in 1966, after a serious overestimate in 1965, and capital expenditure is expected to go up by 20 per cent. Among engineering firms, only vehicle manufacturers continue to expect that demand will slow growth of turnover. In chemicals, large increases in output and exports are expected in 1966.

These are a few of the findings from a fairly wide sampling which has very strict limitations, perhaps, when it comes to interpretation. Nevertheless, the results may well be quoted as giving some indication of the trend of output and investment in industry as forecast for 1966.

More Bank Chairmen's Statements

MR DUNCAN STIRLING, chairman of the Westminster Bank, remarks in his annual statement that the Government has fought hard to make a reality of its incomes policy. He goes on to say that in the United Kingdom's current state of very full employment, a scramble for labour on the part of employers has had to face the suspicion of an incomes policy by trade unions. This, together with rising costs and the balance of payments problem, has lasted so long that 'we need not feel shocked that it has not been halted'. Mr Stirling goes on to say, however, that it might have been slowed down by now if some extravagant pay claims had not been met by generous awards.

Mr Harold Peake, chairman of Lloyds Bank, has reported on a year of exceptional activity in the bank's business. Further progress was made in 1965 in computer systems and a special mention is given to the overseas department which worked last year under greater pressure than ever before.

It is of interest that both chairmen have referred to the further steps taken with computerized accounting and how this has linked branches outside London with the central control in the capital. It is apparent that banking faces a new era of centralized control of accounting; but it may be accompanied by greater decentralization and grouping of branches in the end. Lloyds in 1966 will operate a new data processing unit not only in London but also in Birmingham, while Westminster are decentralizing control of banking business to nine district headquarters.

Talks on U.K. – New Zealand Tax Agreement

NEGOTIATIONS on a new double taxation agreement between the United Kingdom and New Zealand are due to begin shortly. Arrangements have been completed between the Board of Inland Revenue and the New Zealand authorities and a negotiating team from Britain is expected to arrive in Wellington in time to begin discussions on February 7th. A new agreement will be of particular interest to pensioners, superannuitants and business men following the termination of the previous agreement which had been in operation between the two countries.

In addition, it has been announced by the New Zealand Minister of Finance that less tax is to be deducted from pension payments to overseas residents as a result of a new tax deduction table which came into force on December 23rd. The Minister said that the reason for the new table was that from April 1st last year the personal exemption of £468 had been restored for New Zealand pensioners living overseas. The benefit of the exemption for the earlier part of the year is to be given in an annual assessment to be made after March 31st.

The reduced deductions will not affect pensioners who live in Australia, Canada, Japan or Sweden, as their pensions are exempt from New Zealand tax under double tax agreements. Also, there has been no change in the present temporary arrangement under which tax is not deducted from pensions payable to United Kingdom residents.

Church Facts and Figures

THE total income of the Church of England parochial councils in 1962 amounted to £28,283,000, according to the recently published third statistical survey of the Church Information Office[1].

On the subject of incumbents' stipends, the survey shows that for 1964 the overall average stipend was £1,113, compared with £1,023 in 1962. There were 6,405 incomes below that sum and only 218 received more than £1,750 a year.

There were 15,446 full-time clergy at the end of 1963, with an average age of 49. The dioceses with the youngest curates were Manchester, Newcastle and Wakefield, where the average ages were under 32. It is interesting to note that since 1959 the total number of full-time clergy has been increasing by over a hundred every year. Even so, the deployment statistics show that the numbers of full-time parochial clergy actually serving are substantially lower than the estimated requirements for ordained manpower.

The survey contains twenty-seven diagrams in colour and 105 tables arranged in eleven sections.

[1] *Facts and Figures about the Church of England*, Church Information Office, Church House, Dean's Yard, London SW1. Price 30s; library edition 50s.

Debts of Developing Countries

THE recent hostilities between India and Pakistan and the latest information that the new fertilizer loan to India by the United States will have strings attached to it, emphasizes the problem which the highly industrialized countries have in ensuring that their loans are used on economic projects.

Apart from the problem of use of economic help there now looms the problem of repayment. Calculations by the United Nations have indicated that between 1959 and 1963 alone the proportion of export earnings which developing countries had to reserve for foreign debt service charges went up from 3½ to 8½ per cent. Between 1965 and the early 1970s the developing countries are expected to repay from a quarter to a half of their foreign debt, about $24,000 million. This huge liability has to be shouldered by countries whose combined annual export earnings do not normally exceed $33,000 million.

It is evident that the task is impossible without an extension in the annual instalments. Debt waivers on a very large scale will be required to make the burden supportable by the developing countries, many of whose populations are expanding at least as fast as their national incomes. There is therefore an added incentive to some countries, including the United Kingdom, to solve their balance of payments problems in the next few years. The political future of the three major underdeveloped areas, south-east Asia, Africa and South America, may be at stake and it is likely to require a liberal policy on exporting capital from the industrialized countries to maintain stability. Such a liberal policy is not likely to be forthcoming from countries with serious balance of payments problems.

This is My Life

by An Industrious Accountant

WITH the growth of our company I seem to find myself more and more divorced from the routine problems which used to occupy so much of my time. They were more interesting and amusing; the new chores are more of a headache.

Recently, for example, Scotty, our sales manager, entered my office as I was reading the morning post. He'd been having an argument with the manager of the China and Glass Department, he explained, and he wanted some figures to clear the air. No trouble there, he assumed; just a matter of producing the tabulated trading accounts, with percentages, for the preceding quarters. (These marketing men haven't a clue, have they? They expect every statistic to be on tap at a moment's notice.)

He and his colleague had disagreed over the re-allocation of counter-space and display stands, said the S.M., with native canniness, not revealing which side he had taken. The conservative view had leaned towards the time-tested merchandise – the cut-glass from Stourbridge and Waterford, the Wedgwood and fine bone china, and the Staffordshire pottery. The gross profit was satisfactory, nearly 40 per cent around Christmastime, and customer demand steady. The opposite view had urged the claims of cheaper, more eye-catching highly-coloured articles – mostly imported, quaintly-tinted and shaped glassware, gilded decanters, exotic brass flower-holders and bizarre ornaments. True, the demand would be strictly seasonal, a one-off effort, but the profit percentage was breath-taking. Which should have floor priority?

As we settled down to an enjoyable chat the telephone rang. It was the managing director to ask if I could come to his office immediately. He was puzzled by our tax forecast; perhaps a few words would explain the figures in the dividend recommendation? I asked Scotty to adjourn our talk and departed paper-laden.

The next few hours were far from easy. 'What's all this business of stepped-up dividends before April?', inquired the M.D. 'An increased interim will look good on the stock exchange, so what should we do about it? What exactly does the Finance Act mean?'

His problem was far from unique, I assured him warmly. Interpretation of the Finance Act was baffling wiser heads than his (not that I expressed it quite so crudely) and the provisions designed to prevent 'forestalling' were onerous. Some minutes later we were bogged down deep in sections 83 and 85. Later still, I telephoned our auditor to ask how exactly *he* interpreted 'the standard amount' and after some lucid (or nearly lucid) explanations from him, we invited him to join us. He commenced by warning us that the issues involved were far from clear. . . .

We were still seeking lucidity as we went to lunch. 'Later, old chap, later', I said to Scotty, who was beckoning and waving his tabulations as we went out, and he shrugged his shoulders philosophically. We spent most of the afternoon with the M.D. again. The other directors gathered to listen and pretend to understand. . . . 'Well, yes, but Schedule 19 is important, sir' . . . before the meeting broke up and I went off to draft a memo for further review. It started: 'Subject to certain uncertainties as to definition . . .'.

Scotty was driving away as I left that evening. 'We got it settled at last', he called through the car window. 'Your number two had the answers. Tell you about it later'. I haven't had time yet to inquire what happened, but it's water under the bridge now. Anyhow, I must have another session with the auditor to see not only if the memo means just what we want it to mean, but also will it be equally clear to the board.

Business Ratio Models

by T. K. MULLIN, F.C.A., A.M.B.I.M., M.I.M.C.
Senior Consultant
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FINANCIAL analysis enables one to study the end-results of the underlying causative mechanisms which collectively make up the modern business. Whether this analysis is that of the investment specialist, working primarily on published figures, or that of the consultant examining the sales/costs/assets structure of the company, the emphasis is almost always towards determining what has been done in the past and evaluating it in terms of the trends of that particular organization. Informative and revealing though these analyses may be, it is suggested that there is no need to limit the application of ratios and indices in this way.

If one examines the components of financial performance, one derives the structure shown at Figure 1. This form of presentation stems from the du Pont Co in America, and though the essentials of this chart are extremely simple and fundamental, they are equally entirely true and entirely expressive of the whole sequence of business activities leading to a 'profit on assets' result. The 'profit on sales' ratio of a company aggregating a great many different ratios on different products, expresses the costs-sales revenue relationship which can be followed back to the smallest section of the farthest shop floor.

The rate of turnover of assets signifies the characteristics and performance of the company in its own field of operations. A business turning its assets over four times at an overall profit of 3 per cent on sales is earning 12 per cent per annum on its assets. The turnover ratio of four times per annum is highly significant in assessing the performance and vulnerability of the business and can similarly be traced back to the smallest item of stock or plant if needs be.

Common basis

If these ratios are to be compared with those of other companies it is clearly necessary to have a common basis of valuation and description, particularly in the case of fixed assets. Similarly, it is necessary to recognize that other businesses may not themselves represent suitable criteria by which to evaluate performance. A comparison between companies certainly gives factual information on the ranking of these companies among themselves, but it may be that none of the companies involved is producing the results, and hence the ratios, which are capable of achievement.

It is this philosophy which has lead to the extension of financial analysis into the establishment of ratio models. If a business is thoroughly analysed and its operating ratios determined for a number of years, it is possible to establish a series of realistic target ratios and indices for the future which the business must achieve if it is to earn the return on investment stipulated for it. This is particularly relevant in those companies where the return on investment is believed to be inadequate. By stipulating the required ratios (and there may be a number of acceptable permutations leading to the same result) and determining the sales budget carefully and realistically, it is possible to prepare a complete model of the business leading to detailed budgets and operating plans. If these are not acceptable or practical, then clearly the ratios cannot be achieved and the earning capacity of the business must be marked down. One cannot escape the logical structure preceding the ratios, nor can one escape the conclusions arising if the ratios are unachievable.

Management's task

As already mentioned, the ratios concerned merely express the causative mechanisms which the business contains, and it is management's task to organize these to give an acceptable financial result. Thus if costs 'cannot be reduced', the only alternative for a declining business is to turn its assets over more quickly, and research will be needed to establish whether this can be done. If it cannot, then the business has to face the fact that it represents an investment of capital not yielding a satisfactory return. A change of business, or even wholesale realization, may well be a more correct solution than continuing with a non-productive situation. If it is known that both cost performance and asset utilization need improvement, research into layouts, stockholding, labour effectiveness, materials handling and so on should enable new and improved ratios to be laid down in the model for future operations. These may be very different from the existing ratios or trends thereof.

The greatest difficulty is in assessing the correct ratio for any particular company, and here a study of past performance and inter-company comparisons can be valuable. If, to take a simple example, a company can see from its own history that it has operated successfully and profitably on a work-in-progress level of one month of sales, unless the business has changed markedly in the interim there would seem to be no reason why it should not do so again. If comparisons with other firms also show that one month of sales is a

FIGURE 1

COMPONENTS OF PROFIT ON ASSETS RATIO

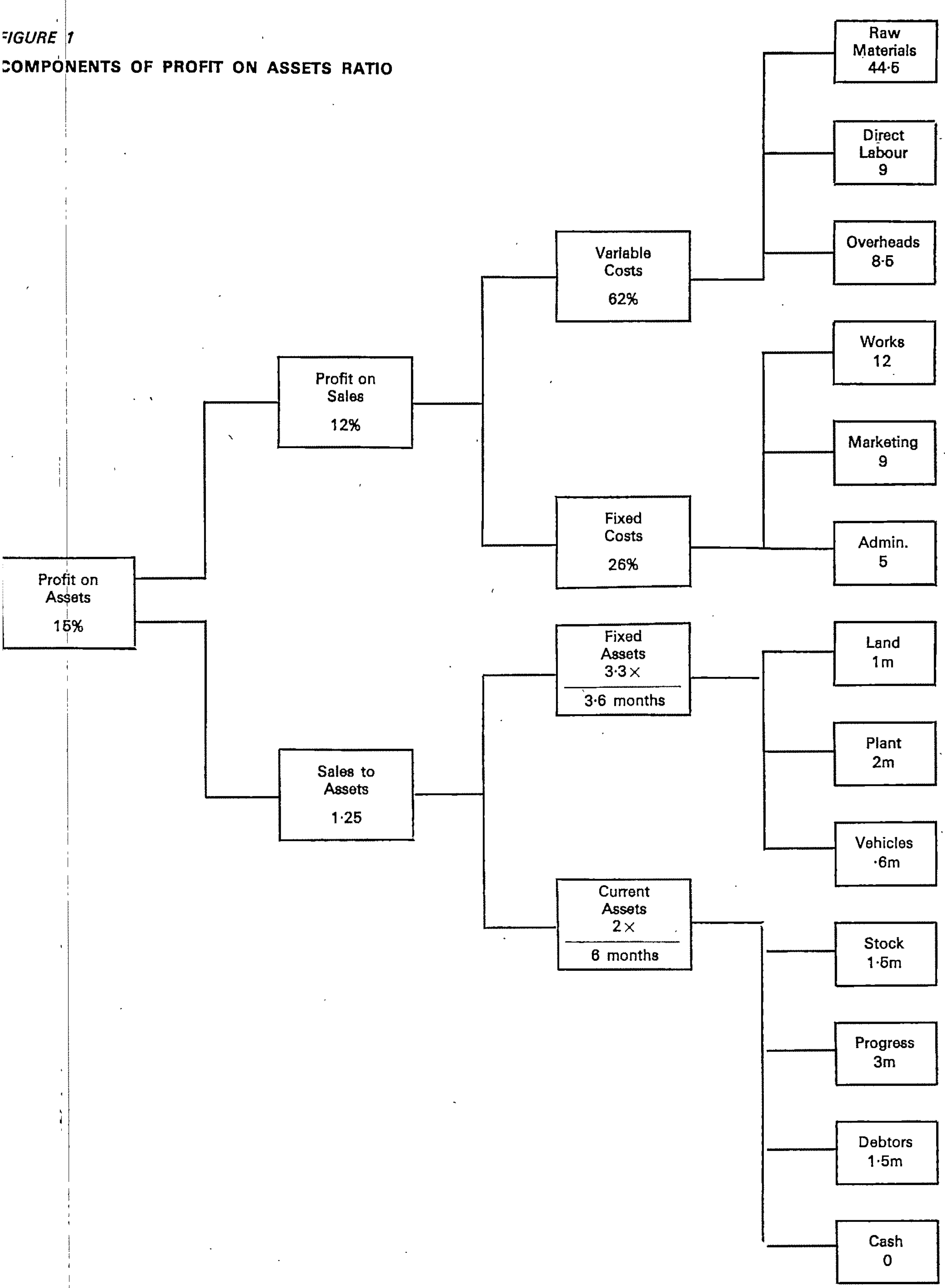

FIGURE 2

FIXED ASSET VALUATIONS

Date of purchase	*Cost* £	*Current value index**	*Current value* £	*Elapsed life*	*Cap tal lost* £	*Residual value* £	*Historical depreciation* £
1927	78,000	2·9	226,200	·9	203,580	22,620	70,200
1931	46,000	3·16	145,360	·8	116,288	29,072	36,800
1937	91,000	3·17	288,470	·6	173,082	115,388	54,600
1950	77,000	1·55	119,350	·5	59,675	59,675	38,500
1957	34,000	1·17	39,780	·5	19,890	19,890	17,000
1965	39,000	1·0	39,000	Nil	Nil	39,000	Nil
	£365,000		£858,160		£572,515	£285,645	£217,100

	£
1965 Profits before depreciation	90,000
Depreciation	14,000
	£76,000

	£
Capital lost in thirty-eight years	572,515
Depreciation provided	217,100
Excess of capital lost	£345,415
Average per annum	£9,089
Current adjusted profits	£90,000 less (£14,000+9,089) =£66,911

*Based on retail price index tables.

FIGURE 3

EXTRACT FROM COMPANY BALANCE SHEET 1965

	£
Fixed assets:	
Cost	365,000
Depreciation	217,100
	147,900
Current assets	400,000
	£547,900

Assessment of return on assets 1965

Book value

$\frac{£76,000}{£547,900}$=13·9 per cent

Cash flow

$\frac{£90,000}{£765,000}$=11·7 per cent

Current adjusted

$\frac{£66,911}{£685,645}$=9·7 per cent

reasonable level this would be provisionally acceptable. If, however, the past conditions were entirely different and current industry performance also pointed to the impossibility of such a low figure for work in progress, it is highly improbable that the company can achieve the ratio – but not necessarily impossible.

Creating a series of ratios

By an analytical examination of costs, assets, methods and inter-company comparisons, together with objective study, a series of model ratios can be created for any company. An example of such a model is shown at Figure 4. Given that the sales figure has been accurately budgeted, these ratios can be:

(*a*) converted into operating budgets and balance sheets;

(*b*) used as control datum points in periodic management reporting.

In establishing ratios for its own purposes, a company can be content with its own book values for fixed asset valuation. If comparisons are to be made with other companies, it will be necessary to adopt two other bases also:

(1) a 'cash flow' comparison whereby depreciation is added back to both the fixed assets and the profit statement;

(2) a 'current adjusted' level whereby assets and profits are adjusted to current value by the use of inflation indices.

An illustration of these three types of assessment is shown at Figure 3. These also appear on the ratio model illustrated at Figure 4.

The conversion of historical book values to a current-value level is a simple enough procedure, provided technical experts are prepared to give a reasoned estimate of the elapsed life of the asset item in question. The 'elapsed life' estimate should take into account wear and tear, obsolescence and company policy. The ratio at current values thus requires:

(*a*) a valuation of all fixed assets at current monetary equivalent (by application of inflation indices);

(*b*) deduction of capital lost on an elapsed life basis;

(*c*) usage of the residual value as the assets figure in ratio models;

(*d*) adjustment of annual profits to allow for average annual capital consumption not covered by depreciation.

A simple illustration of the calculations is shown at Figure 2. It will be seen from this illustration that the under-provision for capital lost due to inflation has been expressed as an annual average and deducted from the annual profits used in establishing the ratio. This is not an absolute measure of the effect, but if the annual average is recomputed annually, the result is acceptable for the purposes of the ratio adjustment.

Certain of the ratios concerned in the model result from underlying industry characteristics which are not easily changed or improved. For instance, in heavy engineering fabrications, the investment in plant and buildings is heavy and the rate of turnover relatively low. The ratio of sales to fixed assets may well be less than 1, and there may be no great opportunity to drastically improve this ratio in the short term. Such ratios may appear to be established with a fair degree of permanence and it may seem pointless to postulate an improvement in them in a model unless there are genuine programmes for far-reaching changes. Yet in this situation the ratio model is particularly valuable, in that it focuses attention separately on to the truth that for these companies, long-term increases in throughput and sales are the only answer to improved returns.

Costs and sales revenue ratios are in a different category and may well be modelled at levels quite different from the apparent 'norm' in the shorter term as well as the longer (value analysis, incentive schemes and cost reduction programmes may change the whole ratio structure in a relatively short time).

The control afforded by these models is essentially for the use of top management, but as Figure 1 demonstrates, departmental and line managers can be made aware of their part in the overall sequence; and when budgeting their expense, stock and financial requirements, they should comprehend the purpose and reason for restricting these to levels which meet in with the overall performance target of the company.

Extensions to the system

In addition to the basic ratios shown in Figure 4, a number of others can usefully be added to the model in extension of the operating yardsticks, by which the effectiveness of the company can be measured. These might include:

£ assets per employee;

£ sales per employee;

£ sales per square foot;

£ assets per square foot.

These denote the relationships between the number of persons employed, the utilization of space and assets, and the sales achieved. A company may develop its own indices along these lines and although it may be difficult to obtain comparisons with other companies, it may well be possible to contrast them within a group of subsidiary or associated companies (if these are engaged on similar activities).

The principal benefit arising from the creation of a business ratio model is the presentation of fundamental management data in simple terms which all can understand, and the logic of which is acceptable through all levels of the organization. In this way it can play a valuable part in unifying and clarifying company objectives.

FIGURE 4

COMPANY: Typical Engineering Ltd

CLASSIFICATION: Medium-sized fabrications

RATIO MODEL 1965

			Book value	*Cash flow*	*Current adjusted*
Profit on total assets			15 per cent	13 per cent	9 per cent
Profit on sales			12 per cent	14 per cent	10 per cent
Sales to assets			1·25	·93	·9
Variable costs to sales			62 per cent		
Fixed costs to sales			26 per cent		
Variable costs	Per cent				
Materials	44·5				
Labour	9·0				
Works overheads	6·0				
Marketing overheads	2·5	62			
Fixed costs					
Works overheads	12				
Marketing overheads	9				
Administration overheads	5	26			
Costs/Total costs					
Materials		50·6			
Labour		10·3			
Works variable overheads		6·8			
Marketing variable overheads		2·8			
Works fixed overheads		13·6			
Marketing fixed overheads		10·3			
Administration fixed overheads		5·6			
		100·0			
Sales to current assets			6 months		6 m.
Sales to fixed assets			3·6		7·2
Current assets					
Stocks			1·5 m.		1·5 m.
Progress			3		3
Debtors			1·5		1·5
Cash			0		0
Fixed assets					
Land and buildings			1 m.		2 m.
Plant and machinery			2 m.		4 m.
Vehicles and handling			·6 m.		1·2 m.

A Critical Look at a Chartered Accountant

THE theme suggested to speakers for these occasions is 'A look at a chartered accountant'. Now I don't want to bite the hands which have just fed me, and I have the greatest possible admiration for so much that chartered accountants do and for their dedication, but I would be doing them no service and I would be less than honest to myself if I didn't interpret this theme as 'A *critical* look at a chartered accountant', and this I propose to do. I promise, however, to endeavour throughout to be constructive and let me hasten to add I am not unaware of the difficulties which face you as chartered accountants.

To start with I thought it might be useful if we first briefly observed how chartered accountants looked at one another – and I don't simply mean knowingly!

Assume that you are about to select a junior partner. We can take it that the candidates' qualification establishes an acceptable technical standard common to them all. Now, what qualities would you especially seek? The ideal candidate would doubtless be respectable, honest, meticulous, conventional and prudent. No doubt you would like also to see other characteristics, but those I have mentioned would, I suggest, rank high on most chartered accountants' lists. And these form the basis of the image which you forthrightly and proudly seek to present, and indeed have very successfully conveyed, to the outside world. I doubt if any profession is more clearly pictured by its potential clients.

Mr S. T. Ryder
managing director of the Reed Paper Group gave this address at last week's luncheon meeting of the London and District Society of Chartered Accountants.

Potentially fatal

As a representative of one of your major clients – industry – I strongly support your insistence on honesty and approbation of respectability. Your stress of the meticulous, the conventional and the prudent disturbs me greatly. Major assets, perhaps, for the practising accountant's office, but in industry, potentially fatal liabilities.

In shaping and maturing the articled clerk in the temples of guarded opinion, with their worship of that ultimate in precision, the balance sheet, and with eyes fixed firmly on the past, your profession's training is dedicated to developing predominating qualities which are the antithesis of the ones required in industry.

Of course, we are obliged to employ a few of the sort of chaps who are never happier than when arranging historical data in neat columns with smart subtotals, and usually to an archaic pattern. Certain legal requirements have to be fulfilled and this job must certainly be properly performed. One of the more encouraging developments in recent years has been the move towards lucidity in published accounts. But the men who are wholly engaged in the work culminating in annual accounts are rarely, if ever, anywhere near the top of the industrial accounting echelon. In industry we take the view that one can record history with the utmost neatness and interpret it with blinding clarity, but one cannot alter the past. The future is quite another matter and infinitely more important.

Whilst management from time to time is obliged to occupy itself with the past it is very largely concerned with the future. The great weight of its efforts is devoted to anticipating problems, solving them and directing action both to seize favourable opportunities and prevent adversities. This involves a great deal more than the rapid reporting of current events: it necessitates peering into the future. Courage, imagination and spirit are at a premium and preoccupation with the meticulous, conventional and prudent is at a heavy discount.

If ever the task before British industry were challenging, calling for dynamism and boldness, now is that time. The point has been stressed, and repeated from every conceivable quarter, that decisive action is essential if we are to survive – let alone improve our standard of living. This is no time, and industry is certainly no place, for obsession with infinite exactitude and binding convention. Yet the selection and training of a chartered accountant ensures so far as possible that the man emerging from this route to industry is temperamentally ill-equipped to give it the best possible service.

This is not to say that all chartered accountants display the characteristics which I deplore. Far from it; we have some excellent C.A.s but, I venture to suggest, they are valuable in industry not because of their training, but despite it.

From industry's viewpoint this is not the only weakness in the training of chartered accountants. Although you now allow a small fraction of the term of articles to be spent in industry, chartered accountants, upon qualification, have rarely obtained more than the sketchiest knowledge of costing. Thus, even in the field of purely historical data, the C.A. arrives in industry with a vast and important field virtually untouched.

Then we come to accounting practice, company law and taxation. As one expects, chartered accountants are particularly knowledgeable on these subjects, at least as far as the United Kingdom is concerned. But it seems completely to have escaped the notice of your Institute that companies

are increasingly becoming internationally minded. More and more they need to know much about practice, law and taxation in overseas countries. Yet chartered accountants in their training and examinations do not learn, except by accident, even the first principles of the different arrangements operating in the major foreign countries.

Other areas which are fast growing in importance as industry becomes more complex and moves towards automation are those embracing maintenance costs, clerical and administrative costs, and research costs. A very important part of the industrial managers' jobs is to ensure that neither too much nor too little is spent on these items. Extravagance means waste of available resources as well as loss of profit; and niggardliness can easily involve loss of production time or customers' vital goodwill or major technical innovations. At present all that management possesses to operate in this very sensitive area is an axe. This may be sharp, but it is woefully crude. We seek a precision instrument. We want to know what value is yielded at different levels of expenditure and at what point diminishing returns apply. Perhaps it is unfair to ask chartered accountants to provide the instrument, but whichever body does so first – and successfully – will reap great rewards. I very much hope that you are in the hunt, but I see little evidence so far.

Acid test

The last subject which I would like to touch on as requiring urgent attention by chartered accountants is the question of return on capital. This, after all, is the bedrock of decision-making in industry. This is the best guide we have as to which course to select and which to reject. This is the acid test which our shareholders and the market ultimately apply to all our efforts.

This question of return on capital takes us back to the first desirable attribute of a chartered accountant – honesty. Surely, it is utterly misleading – when inflation persists – to divide 1966 £s by a collection of £s which in one case may cover the previous thirty years and in another only the previous five, and to present the two answers as capable of reliable comparison. They are not; and it is knavish to pretend that current profits expressed per unit of capital employed, valued on a historical basis, represents anything at all sensible.

This is but one of the conventions which has led to that often heard remark about accounting statements to the effect that what they reveal is interesting but what they conceal is vital. You know full well how much truth there is in that hackneyed phrase.

Having listed some of the more important defects in and omissions from the chartered accountant, as I see him from the industrialist's point of view, I must, to be constructive, propose some remedial measures.

Much of the answer, I am convinced, lies in the method by which chartered accountants are trained. I believe that sooner or later – and I fervently hope sooner – the Institute will recognize that, for accountants wishing to enter industry it must make available quite different arrangements from those currently in force. This may well involve considerably widening the range of options.

Articled clerks should be able freely to choose how many of their five years they will spend in industry and how many in private practice. They should be allowed to sit examination papers in foreign taxation in place of, say, executorship; and to choose between advanced costing and bankruptcy – fair alternatives, I think! Do not postpone contact with and preparation for industry until the post-qualification stage. Vital and formative years would be squandered. Open up to the entrant to your profession a road which fits him for industry from the outset.

Another large part of the answer lies, in my view, in the profession grasping those major problems facing industry today and getting down to the grinding research required to discover their solution. This is nothing new. From time to time your Institute has produced very useful work of this sort, but it always seems to achieve its best results in the non-industrial subjects. The Institute's publications on corporation and capital gains tax were excellent, and industry, I am sure, looks forward to contributions of similar standard on other matters in which it is vitally concerned.

All this concerns the profession as a body, but what of the individual chartered accountant who has come into industry, finds that he likes it, and that he measures up to its requirements? I cannot claim to speak for the whole of industry, but I suspect that my views are not greatly different from those held in other major manufacturing organizations.

I believe that the career of an accountant as an individual will be limited only by his ability and application, and I suggest that he has a vital role to play and that great opportunities are open to him. The task of the accountant in industry is to develop his manager's confidence to such an extent that the accountant is relied upon fully and entirely for all financial information and guidance. At unit or plant level the accountant should be capable of working with the absolute minimum of reference to and checking by accounting staffs in the higher formations.

The great problem in a large industrial organization is not so much its creation, as how to keep it alive and vital. When a comfortable routine method of working becomes established, it is a sure sign that the company is beginning to slip back from what should be regarded as an acceptable standard of performance. The tendency for this to happen is very strong, particularly when the work in hand is complicated and detailed.

In the higher reaches of organizations it is very difficult indeed for the senior management to control what goes on in detail at lower levels. The lower down the scale one goes, the more one finds that wasteful and expensive methods of working tend to be taken for granted because at some time they were instituted by the senior management. Thus one can imagine accountants producing information required by the system without perhaps feeling able to question the use that is being made of it, or indeed whether it is used at all.

Servants – not slaves

I believe that accountants must recognize their role as the servants of management, which is not meant to be taken that they are also its slaves. Performance is necessarily based on financial criteria and it is essential that accountants should be able as early as possible to indicate the result of decisions good or bad, so that favourable positions may be consolidated and advanced, and adverse situations corrected. Inevitably mistakes will be made, but accountants must not flinch from reporting them, for to do so would be to betray their position. Assessments must be impartially made and although encouragement should be given to expression of opinions, bias must not be allowed to influence reports. In many instances accountants find themselves in the role of umpires, and their impartiality as assessors of facts

must be recognized if their full value in the management team is to be realized.

The science of forecasting is still in its infancy but the accountant must assess and evaluate the estimates given to him and recognize their weaknesses. There is a danger that if too detailed a case is demanded of all projects, boats will be missed – and unfortunately in too many spheres of British industry too many boats have already been missed. The other extreme, of course, is equally dangerous, but accountants must be prepared to support projects in which they believe but for which it is quite impossible to establish a firm financial case. We cannot allow ventures to be abandoned because of the 'dead hand' of accountancy.

The sort of accountant we want is one who can contribute positively as a member of a forward-looking management team. Not a man with a problem for every solution; not a man with his foot firmly on the brake at all times; but one urging a sound viewpoint, clearly expressed, able to work with experts in production, sales, engineering and the other specialities, to distill correct decisions.

The first part of my talk I devoted to some criticisms of training, techniques, and outlook, because I believe that your Institute is insufficiently oriented towards industry. I hope I have convinced you that these deficiencies can be remedied and are worthy of prompt and constructive attention. In the second part I outlined my views on the role of the accountant in industry, both as a technical expert and as an important member of the decision-making team.

We in industry recognize that we need your special skills, not merely in balancing the books, but as a vital contribution to progressive industrial management. But we abhor that infamous 'dead hand'. When we look at chartered accountants, show us the life, the courage, the initiative, and the enterprise which British industry so badly needs.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Muir v. C.I.R.

In the High Court of Justice (Chancery Division) December 1st, 1965

(Before Mr Justice PENNYCUICK)

Surtax – Settlement – Some trusts possibly invalid – Whether resulting trust to settlor – Whether income or capital may become payable to settlor – Dissatisfaction not expressed as to point lost – Whether that point now available – Whether Court should exclude an issue – Income Tax Act, 1952, sections 64, 405.

The taxpayer created a settlement in 1947, whereby the trust fund was to be held in trust for such of the settlor's children as should be living at the termination of an appointed period, and if any child should die before the end of the period, his share should be held in trust for his issue as he should have appointed and in default of appointment for his issue living at the termination of the period. The trustees had power, by clause 8, to capitalize income by applying it

> 'towards payment of the premiums on any policy of assurance in which any beneficiary shall (whether under this settlement or under any other settlement or otherwise) have any beneficial interest. . . .'

In 1956 the trustees were advised by counsel that all or some of the trusts of the settlement might be invalid; and as a result an agreement was made in 1957, and was sanctioned by the Court, whereby the settlor was paid £20,000 out of the trust fund in satisfaction of any claim he might have had under a resulting trust or otherwise, and whereby the balance of the trust fund was to be held on the terms of the settlement.

Surtax assessments were made on the taxpayer (the settlor) for 1953–54 to 1957–58 on the alternative grounds (i) that during those years the trusts were invalid and the settlor was entitled under a resulting trust, (ii) that having regard to the doubt as to the validity of the trusts, the trust income or property might become payable to the settlor, so that section 405 of the Income Tax Act, 1952, applied. The Special Commissioners decided in favour of the taxpayer on the first issue and in favour of the Revenue on the second.

At the hearing in the Chancery Division the Revenue raised the further contention that section 405 was applicable because, under clause 3, the trustees might apply trust income towards the payment of premiums on policies in which, under any other settlement or otherwise, a beneficiary and also the taxpayer had beneficial interests, so that in that manner the trust income might become applicable for the benefit of the settlor (the taxpayer).

At this hearing two preliminary points were taken for the taxpayer: (i) that as the Revenue had not expressed dissatisfaction before the Special Commissioners when they lost the point about the uncertain validity of the trusts, they could not raise that point now, (ii) that the further contention should not be entertained.

Held: (1) the settlor was not entitled under a resulting trust during the years in question, (2) section 405 was not applicable because of the doubts as to the validity of the trusts, (3) that section was applicable because of the trustees' power in clause 8 to apply income towards paying the premium on a policy in which both a beneficiary and also the settlor might have an interest under another settlement or otherwise, (4) the preliminary points failed.

Brown v. C.I.R.

In the High Court of Justice (Chancery Division) – December 8th, 1965

(Before Mr Justice STAMP)

Surtax – Wife's income – Non-inclusion in taxpayer's income – Correspondence on the point – Whether fraud or wilful default – Whether back assessments can be made – Income Tax Act, 1952, section 229 (3).

The taxpayer held the view that a wife's income should not be included in his own surtax returns, and in 1951 he was in correspondence with the Special Commissioners' Office on this question. The correspondence did not, apparently, continue beyond that year. In 1961 assessments for back years were made on the taxpayer. During those years he had omitted his wife's income from his returns. On March 6th, 1961, the taxpayer informed the Special Commissioners' Office that he had done so.

Some of the assessments were made more than six years later, but it was contended for the respondents that the assessments were valid in that there had been fraud or wilful default in respect of them.

Held (confirming the decision of the Special Commissioners): there had been at least wilful default on the part of the taxpayer, and the assessments were valid for all years.

Finance and Commerce

Fixed odds

THERE may be some argument as to whether a tax on fixed odds football pool betting is a good or bad tax. It may seem logical that if normal football pools are subjected to tax, then fixed odds pools should be taxed as well. But there is no doubt that the imposition by the previous Chancellor of the Exchequer, Mr Reginald Maudling, of a 25 per cent duty on fixed odds football coupon betting has played financial havoc with the promoting concerns, which are principally the bigger bookmaking groups.

Just how the tax has affected the William Hill organization is shown in this week's reprint from the accounts of the controlling company, Holders Investment Trust Ltd. The effect is shown particularly in the schedules showing the allocation of net loss between the holding company and its subsidiaries.

It should be appreciated in the first instance that the 'boxed' figures change from loss to profit in the second half of the schedule. Even without the impact of the fixed odds betting duty, the group profit was down from £1,400,918 to £59,918, but the impact of the betting duty leads to a pre-tax loss of £2,668,806 against a profit of £1,231,264, and to the absence of dividend against 25 per cent in 1963–64.

Sympathy

Mr Lionel Barber, F.C.A., the chairman, says that in December 1964 representations to the Chancellor of the Exchequer (Mr James Callaghan by then) 'were sympathetically received and understood', but the Chancellor was unable to anticipate anything that might be done in the April 1965 Budget. In the hope that sympathy and understanding might lead to action, fixed odds pools were continued.

But the 1965 Budget brought nothing and William Hill ceased to operate fixed odds after Saturday, April 10th, 1965. Total turnover from fixed odds football betting declined from £16 million in the 1963–64 season to just over £10 million in the 1964–65 season, and in the 1965–66 season the turnover figure for William Hill will be nil. The law of diminishing returns, from a tax angle, could rarely have worked quicker than that.

Mr Maudling, as Mr Barber points out, expressed the view that his aim was not to put fixed odds bookmakers out of business but to protect his overall revenue from pools. But neither of those aims has been achieved. 'Surely', Mr Barber points out, 'the experience of taxing fixed odds football betting is a clear indication of the effect that taxation would have on other forms of betting, the most serious aspect of which would be to drive betting once again into illegal channels, leaving well-established and reputable bookmaking concerns to die a lingering death.'

Loss covered

The group's experience in fixed odds football pools came during a year in which punters on horse racing proved that if the bookies always win in the long run, there are times when they don't. Results during the year under review 'were more than usually favourable to the punter'.

Clearly something had to be done about an overall group loss of such a size and, in order to finance the losses, a mortgage of £1 million was secured on the leasehold property, Hill House, London SE1, and the vendors of William, Hill (Park Lane) Ltd returned, as an unsecured loan, the instalment of £400,000 paid to them following the sale of Debretta Ltd in October 1964.

It has been possible, as Mr Barber says, on a valuation of Hill House, and with accumulated revenue and other

capital reserves, to provide entirely for the loss. It will be noted that the £200,000 of equalization of dividend reserve goes into the pot to cover the loss – 'what's in a name'.

Mr Maudling's exercise in taxation has proved terribly expensive to the fixed odds pools promotors and the net result has been the virtual disappearance of fixed odds pools betting and, with it, the sums previously spent on postage, poundage on postal orders, and also the income tax previously derived from fixed odds football bookmakers.

Analysis needed

NOT every company is in a position to be able to give a clear-cut analysis of the source of earnings, but most should be able to do so when there are plain dividing lines between earnings. One company in such a position would seem to be George Nott Industries Ltd, whose activities fall into three divisions – shipping, electrical and land.

The shipping division is mainly made up of the Townsend Ferries cross-channel car ferry concern, although the uninitiated observer would be unable to tell so from the company's report which contains not a word of detail concerning subsidiary companies in the group. 'Profit' for the year is shown at £1,019,867, but there is no breakdown of the profit figure as between the three divisions.

In fact the only indication of the trend of profit in any division is the point made that the electrical manufacturing companies 'produced a record profit'. The chairman says that it is not easy to forecast the final results for 1965–66. Shareholders may consider that such a forecast would be better made if they were told which divisions contributed most to past year results.

HOLDERS INVESTMENT TRUST LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st JULY, 1965

	£	£	£	1964 £	1964 £	1964 £
Trading Loss of Subsidiary Companies (after charging Fixed Odds Betting Duty of £2,571,829)			2,519,467		(Profit)	1,383,623
Income from Investments, Interest, etc.			7,556			17,295
Consolidated Loss, before charging the undermentioned items:			2,511,911		(Profit)	1,400,918
Emoluments of Directors of the Holding Company:						
Fees	1,300			1,300		
Management	19,309			29,496		
		20,609			30,796	
Depreciation of Fixed Assets		72,309			74,423	
Audit Fees:						
Holding Company	250			250		
Subsidiary Companies	7,525			7,525		
		7,775			7,775	
Secretarial and Administration Expenses		5,544			4,160	
Ground Rent—Hill House, London, S.E.1.		12,500			12,500	
Interest on outstanding purchase price of Subsidiary Company		18,981			40,000	
Interest on Mortgage of Leasehold Property		15,230			—	
Professional Charges in connection with Mortgage		3,947			—	
			156,895			169,654
Net Loss subject to Taxation			2,668,806		(Profit)	1,231,264
Taxation based on these Accounts:						
Income Tax	(Recoverable)	283,141			422,477	
Profits Tax		—			125,991	
			283,141			548,468
Net Loss after Taxation			£2,385,665		(Profit)	£682,796
Dealt with in the Accounts of:						
Holding Company			(Profit) 28,692			347,386
Subsidiary Companies			(Loss) 2,414,357			335,410
			2,385,665		(Profit)	682,796
Surplus from last year (after deducting £86,370 for subsidiary company sold during year)		543,169			345,951	
Less: Tax under-provided in respect of previous years		10,212			—	
			532,957			345,951
			1,852,708			1,028,747
Transfer to General Reserve		77,248			150,000	
Goodwill element on acquisition of a Subsidiary Company		—			60,864	
Net Dividends for the year ended 31st July, 1965:						
On Preference Shares	37,700			38,281		
On Ordinary Stock and "A" Non-Voting Ordinary Shares	—			(25%) 150,063		
		37,700			188,344	
			114,948			399,208
Deficit provided as under:			1,967,656		(Surplus)	629,539
Revenue Reserves:						
General		727,248				
Equalisation of Dividend		200,000				
Capital Reserve		1,040,408				
			1,967,656			—
Unappropriated Surplus to be carried forward			£ —			£629,539
Comprising:						
Holding Company			—			86,256
Subsidiary Companies			—			543,283
			£ —			£629,539

HOLDERS INVESTMENT TRUST LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 31st JULY, 1965

	£	£	£	£	1964 £	£
FIXED ASSETS						
Goodwill of Subsidiary Companies—Excess of cost of shares over book value of net tangible assets at dates of acquisition			2,524,841			2,652,294
Investments:						
Quoted:						
At Cost		—			20,238	
Unquoted:						
At Cost (Directors' Valuation £250)		479	479		479	20,717
Leasehold Property:						
Hill House, London, S.E.1, as valued by Messrs. Keningtons on 6th October, 1965		1,820,000			(at cost) 822,968	
Less: Mortgage at 6½% secured thereon		1,000,000			—	
		820,000			822,968	
Other Property, at Cost	4,814			70,131		
Less: Depreciation	1,734	3,080	823,080	20,620	49,511	872,479
Heritable Property:						
At Cost		59,553			59,553	
Less: Depreciation		15,120	44,433		13,929	45,624
Machinery, Furniture, Fixtures, Office Equipment and Motor Vehicles:						
At Cost		706,176			801,980	
Less: Depreciation		332,538	373,638		365,797	436,183
CURRENT ASSETS			3,766,471			4,027,297
Stocks, at Cost	29,717			172,419		
Debtors and Prepayments	507,543			477,850		
Welfare Fund—Net Assets	29,931			27,831		
Tax Reserve Certificates	—			250,000		
Cash at Bank and in Hand	59,230	626,421		957,657	1,885,757	
Deduct: **CURRENT LIABILITIES**						
Creditors and Accrued Expenses	532,043			571,438		
Welfare Fund—Provision	29,931			27,831		
Taxation	167,001			170,801		
Bank Overdraft	266,327			—		
Proposed Dividend	—	995,302		150,063	920,133	
NET CURRENT ASSETS			$\boxed{368,881}$			965,624
			3,397,590			4,992,921
Deduct:						
Balance payable to Vendors of Subsidiary Company (Note 1)		400,000			800,000	
Unsecured Loans (free of interest)		500,000			—	
Outside Shareholder's Interest in Subsidiary Company		10	900,010		10	800,010
TOTAL NET ASSETS			£2,497,580			£4,192,911
REPRESENTED BY:						
CAPITAL						
Authorised:						
5% Cumulative Redeemable Preference Shares of £1 each (Redeemable at par by 31st July, 1971)		1,250,000			1,250,000	
Ordinary:						
Stock and Shares of 2s. each		1,000,000			1,000,000	
"A" Non-Voting Shares of 2s. each		25,000			25,000	
		£2,275,000			£2,275,000	
Issued and Fully Paid:						
5% Cumulative Redeemable Preference Shares of £1 each		1,250,000			1,250,000	
Ordinary Stock		955,000			955,000	
"A" Non-Voting Ordinary Shares of 2s. each		25,000	2,230,000		25,000	2,230,000
CAPITAL RESERVE						
As at 1st August, 1964		85,577			73,386	
Add: Surplus on sale of investments and subsidiary company		225,379			12,191	
Surplus arising on professional valuation of Hill House, London S.E.1		997,032			—	
		1,307,988			85,577	
Less: Provision for losses of subsidiaries		1,040,408	267,580		—	85,577
REVENUE RESERVES						
General		727,248			650,000	
Equalisation of Dividend		200,000			200,000	
Unappropriated Surplus		—			629,539	
		927,248			1,479,539	
Less: Provision for losses of subsidiaries		927,248	—		—	1,479,539
			2,497,580			3,795,116
RESERVE FOR FUTURE TAXATION			—			397,795
			£2,497,580			£4,192,911

Notes: 1. Of the amount payable to the vendors of William Hill (Park Lane) Limited £200,000 was due 31st March, 1965 and the balance is due 31st March, 1966.

2. Capital commitments at 31st July, 1965, amounted to approximately £57,000.

HOLDERS INVESTMENT TRUST LIMITED AND SUBSIDIARY COMPANIES

ALLOCATION OF NET LOSS, SUBJECT TO TAXATION, BETWEEN THE HOLDING COMPANY AND ITS SUBSIDIARY COMPANIES

	1965					1964					
	Total	*Holders Investment Trust Ltd.*	*William Hill (Football) Ltd.*	*William Hill (Glasgow) Ltd & James McLean Ltd.*	*William Hill (Park Lane) Ltd.*	*Total*	*Holders Investment Trust Ltd.*	*William Hill (Football) Ltd.*	*William Hill (Glasgow) Ltd. & James McLean Ltd.*	*William Hill (Park Lane) Ltd.*	*debretta ltd.*
	£	£	£	£	£	£	£	£	£	£	£
Trading Profit/ $\boxed{\text{Loss}}$ of Subsidiary Companies before charging Fixed Odds Betting Duty	52,362	—	570,584	$\boxed{310,136}$	$\boxed{208,086}$	1,383,623	—	207,726	462,053	636,035	77,809
Income from Investments, Interest, etc.:											
Income from Investments	2,017	2,017				1,921	1,921				
Bank Deposit Interest	5,214		1,785	717	2,712	11,096		5,663	4,921		512
Rent Receivable—Hill House, London, S.E.1. ..	—	105,000	$\boxed{30,000}$		$\boxed{75,000}$	—	135,000	$\boxed{61,667}$		$\boxed{73,333}$	
Sundry Interest and Underwriting	325		76		249	4,015		144		3,871	
Inter-Company Loan Interest	—					—	$\boxed{69,686}$	$\boxed{7,056}$	30,481	46,261	
Income on Tax Reserve Certificates	—					263					263
	£7,556	£107,017	$\boxed{£28,139}$	£717	$\boxed{£72,039}$	£17,295	£67,235	$\boxed{£62,916}$	£35,402	$\boxed{£23,201}$	£775
Consolidated Profit/ $\boxed{\text{Loss}}$ before charging the undermentioned items:	£59,918	£107,017	£542,445	$\boxed{£309,419}$	$\boxed{£280,125}$	£1,400,918	£67,235	£144,810	£497,455	£612,834	£78,584
Fixed Odds Betting Duty	2,571,829		1,850,356	721,473		—					
Emoluments of Directors of the Holding Company:											
Fees	1,300	1,300				1,300	1,300				
Management	19,309		7,500	6,809	5,000	29,496		7,687	16,809	5,000	
Depreciation of Fixed Assets	72,309		15,214	17,456	39,639	74,423		16,087	12,830	34,496	11,010
Audit Fees	7,775	250	2,500	2,525	2,500	7,775	250	2,500	2,105	2,500	420
Secretarial and Administration Expenses	5,544	5,544				4,160	4,160				
Ground Rent—Hill House, London, S.E.1...	12,500	12,500				12,500	12,500				
Interest on outstanding purchase price of Subsidiary Company	18,981	18,981				40,000	40,000				
Interest on Mortgage of Leasehold Property	15,230	15,230				—					
Professional Charges in connection with Mortgage ..	3,947	3,947				—					
	£2,728,724	£57,752	£1,875,570	£748,263	£47,139	£169,654	£58,210	£26,274	£31,744	£41,996	£11,430
Net Loss/ $\boxed{\text{Profit}}$ subject to Taxation	£2,668,806	$\boxed{£49,265}$	£1,333,125	£1,057,682	£327,264	$\boxed{£1,231,264}$	$\boxed{£9,025}$	$\boxed{£118,536}$	$\boxed{£465,711}$	$\boxed{£570,838}$	$\boxed{£67,154}$

CITY NOTES

THE intensity of take-over developments coupled with an institutional inclination to turn towards equities on a yield basis has helped to keep the equity markets looking firm against the bear influences of steeply rising industrial costs, loss of production through restricted gas supplies, and the threatened rail strike.

The way in which equities have more than held their prices in the first month of the year, despite forecasts and warnings to the contrary, has tempted a fair amount of small investor buying. What is more it has deterred a fair amount of small investor selling and it is doubtful whether the average investor has as yet come to grips with the matter of capital gains tax and the need to sell for tax loss purposes.

It may take some considerable time before this particular penny drops. There is little sign, as yet, that the average investor is prepared to take the gains tax position primarily into account as an investment decision influence.

Activity in the take-over sphere may make the investor still more inclined to nurse losers in the hope that a take-over will rescue his position. The more intense the take-over activity, the stronger the nursing of hopes.

The main question is just how long the market can hold up against economic and political factors. There is, as yet, no real sign that it is failing to do so.

* * * *

BANK chairmen this year have made it abundantly clear that the banks are out for business, but Mr Duncan Stirling, chairman of Westminster Bank, went further than any of his counterparts. The trend, he said, in his annual review, is towards a general liberalizing of banking practice and a breaking down of old demarcations. Restrictive attitudes are no more appropriate in banking than in industry.

Westminster Bank, Mr Stirling said, is at its customers' disposal 'for whatever services they may require and we can provide, including the raising of share or loan capital when appropriate'. Last year Westminster caused some eyebrow raising by encroaching on merchant banking preserves but, clearly, it has no regrets on the point and the other banks are unlikely to be slow to follow the Westminster lead.

* * * *

DOMESTICALLY the Stock Exchange is having a rough time. The failure of Edward Cutbill & Co and the reports of heavy sums involved, the investigation into 'bond-washing' dealings and reports of other small broking firms in trouble have caused concern. But at least the Stock Exchange has not kept these matters hidden. Stock Exchange members probably take such matters too much to heart and are, in the modern idiom, too concerned with the Stock Exchange's 'image'. That is understandable, but recent events show clearly enough that the Stock Exchange Council is intent on maintaining the highest traditions of its business principles.

* * * *

AFTER months of holding the 6¾ per cent mortgage interest rate line, the building societies have now made it clear that the Budget holds the key as to whether the rate can be held for a further period. Mr H. Roy Matthews, of Abbey National, recently made the point in no uncertain terms and was followed by Mr J. H. Simpson, of the Co-operative Permanent, who went so far as to say that if the Budget increases the building societies' tax load, then 7 per cent mortgages may not be high enough. Meanwhile, there is no indication of any stabilizing of interest rates at current levels. In fact there is evidence of continued pressure towards higher rates, particularly in the industrial debenture sphere where 7½ per cent is becoming the accepted debenture rate for even fair-sized industrial borrowers.

RATES AND PRICES

Closing prices, Tuesday, January 25th, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Nov. 19 ..	£5	9*s*	2·90*d*%	Dec. 23 ..	£5	10*s*	5·88*d*%
Nov. 26 ..	£5	7*s*	10·72*d*%	Dec. 31 ..	£5	10*s*	5·08*d*%
Dec. 3 ..	£5	7*s*	5·32*d*%	Jan. 7 ..	£5	10*s*	5·20*d*%
Dec. 10 ..	£5	9*s*	4·64*d*%	Jan. 14 ..	£5	9*s*	9·73*d*%
Dec. 17 ..	£5	10*s*	3·74*d*%	Jan. 21 ..	£5	9*s*	0·33*d*%

Money Rates

Day to day ..	4⅜–5⅝%	*Bank Bills*	
7 days	4¼–5½%	2 months ..	5⅞–5 15/16%
Fine Trade Bills		3 months ..	5⅞–5 15/16%
3 months ..	7–7½%	4 months ..	5⅞–5 15/16%
4 months ..	7–7½%	6 months ..	5⅞–5 15/16%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2·80 13/32	Frankfurt ..	11·25 13/32
Montreal ..	3·01 15/32	Milan	1752 17/32
Amsterdam ..	10·14 17/32	Oslo	20·03 1/32
Brussels	139·45	Paris	13·74¾
Copenhagen ..	19·31⅜	Zürich	12·14 3/32

Gilt-edged

Consols 4% ..	60¼	Funding 6% 1993 ..	94¼
Consols 2½% ..	38 15/16	Savings 3% 60–70 ..	86
Conversion 3½% ..	54⅜	Savings 3% 65–75 ..	74 13/16
Conversion 5% 1971	93 13/16	Treasury 6½% 1976	100
Conversion 5¼% 1974	92⅞	Treasury 3½% 77–80	74¾
Conversion 6% 1972	98½	Treasury 3½% 79–81	71⅞
Funding 3½% 99–04	59⅛	Treasury 5% 86–89	83¼
Funding 4% 60–90	93 15/16	Treasury 5½% 08–12	86 7/16
Funding 5¼% 78–80	88¾	Treasury 2½% ..	39
Funding 5½% 82–84	89⅜	Victory 4%	95 5/16xd
Fundink 5¾% 87–91	92	War Loan 3½% ..	53 13/16

Correspondence

Joint Diploma Scheme

SIR, – The Press release issued by the Joint Diploma Board on November 29th, states that the objects of the Joint Diploma Scheme are:

(a) to improve the standard of management accounting services which the profession can give to industry;

(b) to provide a recognized qualification for accountants in industry and those acting as consultants for industry which will indicate that the holder is highly qualified by experience and by examination in this field.

The words 'and by examination' are to be noted. Members of the participating bodies now preparing to face ordeal by examination must have therefore read with considerable surprise the announcements in *The Accountant* and other professional journals that the Joint Diploma Board has granted honorary diplomas to a number of leading members of the profession. With the specific exception of those members of The Institute of Cost and Works Accountants who passed the former Fellowship Examination in Management Accounting, may one ask on what grounds, and for what purposes, the Board has designated a select few to receive this accolade? Does the Board intend to continue this practice in contrast to the stated objects of qualification by examination, and if so, why?

Yours faithfully,

Ruislip, Middx. J. A. REDMAN, F.C.A.

Preparing for the Profession

SIR, – Professor Edey in his article on 'Preparing for the profession' (January 15th issue) mentions the present narrowness of the training of chartered accountants. I believe, however, that as regards a graduate, who has been taught the main academic disciplines whilst at university, there is something more fundamentally adrift.

For example, in the first year or so a graduate – unless he is very lucky – has to perform mundane chores during the daytime as he is initially unfitted for anything else. This prevents him learning fast and is highly frustrating and demoralizing and totally unnecessary. It would be better if the graduate had passed his intermediate examinations before he entered an accountant's office, and he could then fairly quickly be given interesting and satisfying work to perform.

This is an illustration of the apprentice system mentality which still exists and which is not relevant to the modern world.

Surely the objective of the accountant's training is to fit a student to be able to act as a reliable accountant in industry or in public practice in the shortest possible time, and it is not to provide the principals with cheap (and generally very inefficient) labour.

If this is accepted as the objective, then in addition to the necessary broadening of the syllabus there would be much to be said for adopting a training scheme which would permit the passing of professional examinations in the shortest possible time and making obligatory a minimum period of post-examination experience either in public practice or in industry.

Yours faithfully,

Worksop, Notts. H. R. SYKES, C.A.

Malaysian Capital Gains Tax

SIR, – The note on page 49 of your issue of January 8th, and the reported article in the *Bulletin of International Fiscal Documentation* have become out of date. In his Budget speech the Malaysian Finance Minister said:

'In the course of drafting the required legislation this year, it was found that translating the principles outlined in the White Paper in question into legal language was more complex than originally anticipated. For example, it was agreed last year to give an annual exemption of the first $5,000 of the aggregated capital gains of the taxpayer and his wife, such exemption to be available only to individuals and Hindu joint families. It has since been found that adherence to this principle would result in loopholes which would facilitate avoidance if not evasion as well. On the other hand, the withdrawal of such exemption would catch the smaller gains whom it is not our intention to include within the scope of this tax. It has also been found that it would be necessary, in order not to make the tax more complicated than it already is, to depart materially from the original scheme. In view of this, the Government has decided to postpone the imposition of this tax to a more opportune time when the performance of this tax in other countries has been fully investigated.'

I am sure the British taxpayer will envy the gentle understatement in the first sentence as much as the decision in the last.

Yours faithfully,

Singapore. J. B. CURRAN, F.C.A.

[The decision to abandon the proposals for the time being was noted in our issue of January 15th, page 92 – Editor.]

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Notification of Examination Results

Subject to unforeseen circumstances, lists of candidates successful at the November 1965 old Final and new Final Part I and Part II examinations will be displayed at the temporary offices of the Institute, 56–66 Goswell Road, London EC1, (*not* Moorgate Place) on Tuesday, February 8th. The lists will be published in *The Accountant* of February 12th.

In addition, each candidate may expect to receive by post at the earliest on Monday, February 7th, a notice stating whether he has passed or failed, together with details including any prize awarded or, if unsuccessful, particulars of his performance in individual papers.

The Institute cannot give information of results by telephone or telegram and cannot entertain inquiries as to whether results are available.

PROFESSIONAL NOTICES

MESSRS COX, WOLVERSON & CO, Chartered Accountants, incorporating BARNFIELD & CO, of Walsall, announce that Mr J. A. Cox, A.C.A., son of Mr F. G. Cox, F.C.A., has been taken into partnership. The practice will continue under the new style of COX, WOLVERSON & CO.

MESSRS A. F. FERGUSON & CO, Pakistan, announce that their Karachi office has moved to new premises and their address is now Ralli Building No. 3, Ralli Square, off McLeod Road, Karachi 2. The post box and telephone numbers remain unchanged.

MESSRS DEREK WEBSTER & CO, Chartered Accountants, of Baker Street Chambers, 136 Baker Street, London W1, announce that Mr RONALD CHARLES NEAL, F.C.A., who has been with the firm for many years, has been admitted into partnership with effect from December 1st, 1965.

MESSRS LANDAU, MORLEY & SCOTT, of 13 Marylebone Road, London NW1, and other addresses, have been joined in partnership by Mr JOHN PATTINSON, F.C.A., and Mr IAIN HAMISH HANDLEY, A.C.A., of Messrs WOOTTON, PATTINSON & HANDLEY, of Winchester and Alton, Hants. Mr JOHN THOMAS FLANAGAN, A.C.A., of LANDAU, MORLEY & SCOTT has concurrently become a partner in the Hampshire firm, which will continue in practice under the style of WOOTTON, PATTINSON & HANDLEY in association with LANDAU, MORLEY & SCOTT.

Appointments

Mr N. H. Chase, D.F.C., F.C.A., has been appointed a director of Radio Rentals (U.K.) Ltd and Rentaset Ltd; he has resigned as secretary of Radio Rentals (U.K.) Ltd but remains secretary of Radio Rentals Ltd.

Mr L. Cooper, A.C.W.A., formerly cost accountant of Walker Crosweller & Co Ltd, has been appointed the company's management accountant.

The Rt Hon. Viscount De L'Isle, V.C., P.C., G.C.M.G., G.C.V.O., F.C.A., has been appointed a deputy chairman of Phoenix Assurance Co Ltd.

Mr Ralph D. Haxby, F.C.W.A., systems director of The Solartron Electronic Group Ltd, has been appointed to the board of the company.

Mr E. R. Howell, A.A.C.C.A., has been elected a director of Elliott Business Machines Ltd.

Mr D. S. McAleese, B.A., B.COMM., A.C.A., has been appointed deputy general manager of Irish Life Assurance Co Ltd.

Mr L. G. Mummery, F.C.A., assistant managing director and formerly secretary of W. Canning & Co Ltd, has been appointed managing director of the company.

Mr F. F. Picken, C.A., has been appointed deputy general manager and a director of John Bull Rubber Co Ltd.

Mr L. W. Torry, F.C.A., has been appointed secretary of Radio Rentals (U.K.) Ltd, while retaining his post as secretary of Rentaset Ltd and its subsidiary companies.

Mr Robert A. Williamson, C.A., secretary of John Brown & Co (Clydebank) Ltd, has been appointed a director of the company.

Mr Cyril J. Witham, A.C.W.A., F.C.I.S., secretary/accountant of Venetian Vogue Ltd since 1960, has been appointed a director of the company.

Mr Philip Wood, F.C.A., has been appointed a director of Thorpe & Porter Ltd.

NEW CHAIRMAN OF CITY LANDS COMMITTEE

Mr Eric Wilkins, F.C.A., for twenty years a member of Common Council of the Corporation of London, has been elected Chairman of the City Lands Committee of the Corporation – Chief Commoner for the year 1966–67. A Deputy and Lieutenant of the City since 1957, Mr Wilkins, who is senior partner in the City firm of Wilkins, Kennedy & Co, Chartered Accountants, was Chairman of the Public Health Committee in 1950–51 and during his five-year chairmanship of the Barbican Committee became known as the original 'Mr Barbican'.

In 1964, he was appointed a General Commissioner of Income Tax for the City of London which, he says, gives him little time for his favourite hobby – gardening at his home in Chesham Bois.

OBITUARY

George Langley Myers, F.C.A.

We have learned with regret of the sudden death on January 13th of Mr George Langley Myers, F.C.A., director and secretary of Harrods Ltd.

Mr Myers was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1927, having previously distinguished himself at the London School of Economics, and very soon began to make his mark in the rapidly expanding Harrods organization, first as chief accountant to Dickins & Jones, then as chief accountant at Harrods Ltd. He subsequently became secretary of the company and, in 1960, obtained his seat on the board.

A bachelor, he shunned the lime-

light and devoted his life to welfare, particularly to education, being on the board of one girls' school and on the point of joining the board of a second. The past master of two masonic lodges, he was also secretary to one to which he gave much of his time.

A natural mathematician, he was a brilliant bridge player and, as such, brought much enjoyment to a large circle of friends in South Kensington where the greater part of his life was spent. His colleagues in Knightsbridge will greatly miss the wise and friendly counsel of their 'Elder Statesman'.

COST ACCOUNTANTS' OXFORD CONFERENCE

'The accountant's role in commercial management' will be the theme of a course for members of The Institute of Cost and Works Accountants to be held at Oriel College, Oxford, from April 1st–3rd.

The Institute's No. 1 Area Co-ordinating Committee, which is organizing the course, states that as management accountants are increasingly required to be conversant with the techniques of their fellow-specialists, the following subjects and speakers have been arranged:

- 'Marketing', by Mr H. J. Novy, director, Metra Sigma Martoch Ltd.;
- 'Inventory control', by Mr J. Foster, A.C.W.A., manager, data processing, planning and control, I.B.M. Ltd.
- 'Selling and pricing policy', by Mr J. L. Hilton, F.C.W.A., financial director, General Refractories Ltd.
- 'Distribution', by Mr R. Eddison, director and general manager, Sigma Ltd.

The inclusive fee of eight guineas is for single-room accommodation in College and all meals in Hall from Friday evening to Sunday tea. Applications to attend (members only) should be addressed to The Registrar, Members' Course at Oxford, Institute of Cost and Works Accountants, 63 Portland Place, London W1.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

There was an attendance of over three hundred at the second non-residential two-day course on the Finance Act, 1965, organized by the Manchester Society of Chartered Accountants at the Manchester College of Science and Technology on January 18th and 19th. As on the previous occasion, the speakers were Mr K. S. Carmichael, F.C.A., who dealt with corporation tax, and Mr L. J. Northcott, F.C.A., who spoke on the taxation of capital gains.

The Society has also arranged a week-end conference on the same subjects, which is to be held at the Palace Hotel, Buxton, from March 11th to 13th. The speakers will be Professor G. S. A. Wheatcroft, M.A., and Mr J. Christie, F.C.A. The available accommodation (limited to one hundred persons) is already fully booked.

Discussion Group

The next meeting of the spring session of the Manchester Society's Discussion Group will be held on February 9th, at 5.45 p.m. for 6 p.m. in the board room of the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2, when the subject for discussion will be the report of the Society's subcommittee on the 'Place and image of the chartered accountant in industry', led by Mr G. A. Spencer, F.C.A., (Chairman of the subcommittee).

Other meetings have been arranged as follows:

March 9th: The taxation of capital gains – detailed considerations (1) led by Mr R. Batters, A.C.A.

April 27th: The Budget led by Mr F. A. Sherring, F.C.A.

May 25th: (Provisional) The taxation of capital gains – detailed considerations (2) led by Mr R. Batters, A.C.A.

It is hoped that a joint meeting will take place with the Sheffield Discussion group, the subject being the 'Place and image of the chartered accountant in industry', in May. It is probable that the meeting will take the form of a dinner followed by a discussion. Members who are interested in participating should inform the honorary secretary of the group Mr R. Batters, A.C.A., at the above address as soon as possible.

NORTH WEST SOCIETY OF CHARTERED ACCOUNTANTS

The North West Society of Chartered Accountants will be holding a two-day course for members at the Norbreck Hydro, Blackpool, on March 14th and 15th. The first day will be devoted to problems arising from the Finance Act, 1965, when the speaker will be Mr K. S. Carmichael, F.C.A., and the second day will consist of group discussion on practice administration.

SOUTH-WEST ESSEX GROUP OF CHARTERED ACCOUNTANTS

Another successful meeting of the South-West Essex Group of Chartered Accountants was held on January 3rd, on the subject 'Modern farm business analysis and management'. The Group was addressed by Mr E. Dexter, Assistant Regional Farm Management Adviser to the National Agricultural Advisory Service, and he was assisted in his replies to questions put by members by two district advisory officers to the N.A.A.S. The purpose of the meeting was to explain modern farm business systems and planning using the simple 'do-it-yourself' 'gross margin' method for calculating farm profits for replanning, and to provide further details of the Government's proposals to pay grants to encourage the keeping of farm business records. The meeting was thought to be of great benefit to members.

The next meeting is to be held on Tuesday next, February 1st, at St Aubyns, 34 Eastern Road, Romford, Essex, at 6.15 p.m. for 6.45 p.m., when the members of the Group will meet a number of H.M. District Inspectors of Taxes and their colleagues to discuss the various problems arising between the Revenue and chartered accountants. Light refreshments will be available, together with a fully stocked bar for members' convenience.

Those wishing to attend the meeting or to have their names placed on the Group's mailing list are invited to communicate with the Secretary, Mr D. E. Heady, A.C.A., at 187A South Street, Romford, Essex. Telephone Romford 44728.

TAXATION SEMINAR

A one-week seminar in taxation is to be held by The Polytechnic School of Management Studies, Regent Street, London W1, starting on February 28th. It is designed for those who are already familiar with income tax and profits tax to enable them to familiarize themselves with the provisions of the 1965 Finance Act.

The seminar has been planned after considerable consultation with tax advisers working in industry and the professions, and aims not only at broadening the knowledge of the new tax provisions, but also of relating their implications to the policy and decision-taking process in industry and commerce.

The seminar will be supported by

addresses by tax advisers to large firms and by members of the accountancy and legal professions, and will draw to a large extent from their practical experience in this field.

Further details can be obtained from Mr Gordon Wright, Lecturer in Finance, The Polytechnic School of Management Studies, 309 Regent Street, London W1.

year's edition dealing with housing space, educational awards in Scotland, expenditure on research and development and numbers engaged in research in private industry, the value of new orders in construction, and monetary movements in the balance of payments.

The standard regions and conurbations as used for statistical purposes are defined in the first appendix, and the standard industrial classification in a second. The covers are now in reinforced linen instead of the stiffened paper used previously, and the whole continues to be an invaluable source of information for business, professional, economic, educational and social research.

ASSOCIATION OF LECTURERS IN ACCOUNTANCY

The Association of Lecturers in Accountancy is holding a conference at Wolverhampton Technical Teachers College on Friday evening, February 25th, and Saturday, February 26th, on the subject 'Methods of teaching accountancy' embracing programmed learning, case studies, 'accountancy workshop', etc. There will also be syndicate discussions on the problems of teaching accountancy.

The speakers will include Mr E. C. D. Evans, B.SC.(ECON.), F.A.C.C.A., A.C.I.S., A.M.B.I.M., Director of Accountancy Studies, Slough College, Mr G. S. Hardern, B.A.(ECON.), LL.B., A.C.W.A., Head of Department of Business Studies, Wolverhampton Technical Teachers College, and Mr N. Paine, F.C.A. Overnight accommodation will be available at a small charge.

Further details may be obtained from Mr G. S. Hardern, B.A.(ECON.), LL.B., A.C.W.A. Head of Department of Business Studies, Wolverhampton Technical Teachers College, Compton Road West, Wolverhampton.

ABSTRACT OF STATISTICS

Three hundred and eighty tables are contained in the 1965 edition of the *Annual Abstract of Statistics*, which is now published (H.M.S.O., price £1 5s). The *Abstract* is prepared by the Central Statistical Office in collaboration with the statistics divisions of Government departments and covers subjects ranging from trades unions to the quantity of crops and grass harvested.

Five new tables are included in this

NEW LEGISLATION

The date indicates when an Act received the Royal Assent

STATUTES

Chapter 70: Honourable Lady Hylton-Foster's Annuity Act, 1965

An Act to settle and secure an annuity upon Audrey Pellew Hylton-Foster, commonly known as the Honourable Lady Hylton-Foster, in consideration of the eminent services of her late husband, the Right Honourable Sir Harry Braustyn Hylton Hylton-Foster.

Price 3d net. November 8th, 1965.

Chapter 77: Expiring Laws Continuance Act, 1965

An Act to continue certain expiring laws.

Price 3d net. December 22nd, 1965.

Chapter 78: Pensions (Increase) Act, 1965

An Act to make provision with respect to increases or supplements in respect of certain pensions.

Price 1s 6d net. December 22nd, 1965.

Chapter 79: Workmen's Compensation and Benefit (Amendment) Act, 1965

An Act to amend the law with respect to the supplementation of workmen's compensation and the provision of other benefit in respect of employment before July 5th, 1948.

Price 1s 3d net. December 22nd, 1965.

Chapter 80: Rural Water Supplies and Sewerage Act, 1965

An Act to increase the limit on the contributions out of moneys provided by Parliament which may be made under section 1 of the Rural Water Supplies and Sewerage Act, 1944.

Price 3d net. December 22nd, 1965.

Chapter 81: Housing (Slum Clearance Compensation) Act, 1965

An Act to amend the provisions of Part II of Schedule 2 to the Housing Act, 1957, relating to private dwellings.

Price 6d net. December 22nd, 1965.

Chapter 82: Coal Industry Act, 1965

An Act to make provision with respect to borrowing by, and loans by the Minister of Power to, the National Coal Board; with respect to the capital reconstruction, and the application of certain funds, of that Board; for the making of grants with the object of accelerating the redeployment of the manpower resources of that Board and the elimination of uneconomic colliery capacity; with respect to pensions or compensation for certain persons who have been members of that Board; and for connected purposes.

Price 1s 3d net. December 22nd, 1965.

Chapter 83: Teachers' Superannuation Act, 1965

An Act to amend the law relating to the superannuation and other benefits payable to or in respect of teachers and certain other persons employed in connection with the provision of educational services, and for purposes connected therewith.

Price 1s 6d net. December 22nd, 1965.

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ON OTHER PAGES

Doubtful Diagnosis

A PROFESSION, the late Lord SIMON once pointed out, has three essential characteristics. First, it is based on preliminary study, training and examination; secondly, the profits to be derived from it do not depend primarily upon the outlay of considerable capital; and thirdly, service comes before reward.

To most people this outline would appear to be above suspicion but Professor D. S. LEES, in a monograph just published by The Institute of Economic Affairs[1] has other views. He questions if professional people are quite the monks growing their own vegetables in selfless pursuit of the public good that their pronouncements and demeanour would suggest. He thinks that the professions (and he instances specifically the accountancy profession), under the guise of producing in the interests of the consuming public a proven superior product, aspire to establish monopolies which give their members not only higher incomes but also status and security in the form of a quiet life free from competition. In his opinion, the restrictive practices of the professions should be registered under the Restrictive Practices Act, a move which would have the double effect of compelling them to justify their practices and 'of generating a body of data in a field where quiet ignorance is the rule' – whatever that may mean.

This is indeed fighting talk but, in making a diagnosis based on such a diversity of occupations as the law, hairdressing, osteopathy, surveying, midwifery and dentistry among others, Professor LEES was bound to arrive at some odd conclusions. As far as accountancy is concerned, his two oddest are that the profession is a 'closed shop' and that its members lead cloistered lives. To imagine that a qualified accountant, struggling in a small provincial practice against unqualified and often unscrupulous competition, is sheltered from the wordly winds is about as far off the mark as would be the assumption that Swansea professors have leisure to play two rounds of golf every day at Porthcawl in term-time.

The idea of the accountancy profession being a 'closed shop' is even more fanciful. Anyone, nowadays, with character and ability can become a qualified accountant. Further, while it is true that the senior bodies jealously guard their hard-won privileges, the decision as to whether or not any other professional body has attained a sufficiently high standard to earn its members the right to audit the accounts of public companies rests not with chartered or certified accountants themselves but with the Board of Trade.

[1] *Economic Consequences of the Professions*, by D. S. LEES, Professor of Applied Economics, University College, Swansea.

Tax Avoidance Device Fails

THAT notorious omnibus section aimed against a multitude of tax avoidance devices, section 28 of the Finance Act, 1960, has now been the subject of scrutiny by the House of Lords. By a majority of one, the House has upheld the Revenue claim[1] to surtax on the grossed-up equivalent of an indubitably capital payment made in redemption of a debenture. The final score is that two Special Commissioners, three Lord Justices, and two Lords of Appeal found in favour of the taxpayer; while one High Court Judge and three Lords of Appeal found in favour of the Inland Revenue. Nevertheless, the Inland Revenue have won.

It is now clear that if a company, controlled by not more than five persons, makes a bonus issue out of profits and then subsequently redeems that bonus issue, the case is within section 28 (2) (*d*) and there is a manifest tax advantage. Moreover, the Inland Revenue are justified in grossing up the net payment at the current standard rate of tax and charging surtax on the grossed-up amount.

Perhaps it is fair to say that there would not have been so much judicial disagreement but for the fact that the bonus issue of debentures in the *Parker* case had been made before section 28 of the Finance Act, 1960, had been thought of, indeed as long ago as 1953. All that happened after the passing of that Act was that the company chose to redeem the debentures at par, as it had a right to do. The shareholders relied, ***inter alia***, on the proviso to section 28 (1) which directs that section 28 shall not apply if the transaction or transactions in securities were carried out before April 5th, 1960. This brought in two arguments, namely that the mere redemption of a debenture is not a 'transaction in securities' (an argument which found favour with Lord DENNING) and that in receiving the redemption money the holder did not thereby obtain a 'tax advantage' as that expression is defined in section 43 (4) (*g*) of the Finance Act, 1960. The latter argument developed into an argument that the tax advantage arose in 1953, and could not arise again in 1961.

A subsidiary argument was that if the redemption was a transaction in securities, and if there was a tax advantage, nevertheless such advantage did not arise in the circumstances set out in section 28 (2) (*d*), i.e. that if the redemption of debentures did amount to 'consideration', it was not consideration within the meaning of the term as used in section 28 (2) (*c*) (*d*). To be within paragraphs (*c*) (*d*) the consideration must be, or ***represent***, the value of assets which are (or apart from anything done by the company would have been) available for distribution by way of dividend. Alternatively it must be received in respect of future receipts of the company or represent the value of stock-in-trade. Moreover, the person must receive the consideration in such a way that ***he*** does not pay or bear tax on it as income.

For the purpose of paragraph (*d*) the consideration must have been received 'in connection with the distribution of profits' of the company; and 'assets' in paragraphs (*c*) and (*d*) do not include assets which are shown to represent a return of sums ***paid*** by subscribers on the issue of securities.

The majority in the House of Lords demolished all these arguments one by one. It seems to be established clearly now that if a company merely makes a bonus issue, whether of shares or of debentures, no 'tax advantage' accrues to the taxpayer at that point. Lord GUEST did say that there might be such an advantage in that the allottee of the bonus issue could sell it; but that equally applies to the selling of part of the original shareholding. It follows then that where the allottee merely sells his bonus allotment he is not caught. The buyer who is then paid out equally obtains no tax advantage, although at that stage he receives consideration within section 28 (2) (*c*) (*d*). However, both seller and buyer (when he is paid out) will face alternative liability to capital gains tax.

Another thing which emerges clearly from the decision is that where the company pays out a 'consideration' within section 28 (2) (*c*) (*d*) which is in itself a distribution of 'profits', then that payment is made 'in connection with' a distribution of profits; a curious choice of language.

In this area of bonus issues followed by repayments, section 28 will be rendered largely obsolete by the fact that the Finance Act, 1965, provides for the treatment of redemptions of bonus issues as though they were distributions subject to grossing-up and a charge not only of standard rate income tax but also surtax on the grossed-up amount. However, the ***Parker*** decision will indirectly strengthen the Inland Revenue in its application of section 28 directions to other matters.

[1] *C.I.R. v. Parker*, January 27th, 1966 (reversing the Court of Appeal, 44 A.T.C. 17).

Sponsored Industrial Reorganization

THE precise role of Government in the modern highly-industrialized economy is a matter for debate. Admittedly, the time has long since passed when the appropriate function of Government was judged to be merely that of 'holding the ring'. The opposing argument stresses the need for Government intervention within industry, either to prevent price fixing or monopoly rings, or to achieve more positive benefits such as the regrouping of industrial concerns as took place some years ago among the nuclear power producers and, more recently, in the aircraft industry. The danger of such direct intervention and enforcement of what the Government of the day regards as that policy most suited to what is invariably adjudged to be the 'national interest', is that the policy may prove to be disastrously wrong.

The present U.K. Government's current predeliction for a 'mixed' economy, coupled with its clear-cut desire to intervene in industrial affairs, has been met by the new proposals for an Industrial Reorganization Corporation. Last week's White Paper of that title (Cmnd 2889) says 'the need for more concentration and rationalization to promote the greater efficiency and international competitiveness of British industry, which was emphasized in the National Plan, is now widely recognized'. Whether or not such a claim can be justified, there is no question – as the White Paper goes on to point out – that 'many industries have already substantially altered their structure and organizations through mergers, acquisitions and regroupings'. This same process has, comments the White Paper, 'been accelerating in recent years and may be expected to continue'.

To this end, the new corporation 'will seek the fullest co-operation from industry and the existing financial institutions' and will acquire a stake in the ownership of new groupings or enterprises which it will help to create or expand. The means to do this are provided by the £150 million grant to the corporation from the Department of Economic Affairs under whose sponsorship it will operate.

Initial reactions from organized industry have not been encouraging. The Institute of Directors and, more especially, the Confederation of British Industry, have made clear their concern over the implications of this new development, while Sir PAUL CHAMBERS, C.B.E., chairman of I.C.I., has sharply dissociated himself and his organization from its prospective activities. Government spokesmen have been prompt in their denials that they have in mind anything tantamount to compulsory acquisition or the creation of Government-subsidized undertakings.

The White Paper sets out a series of aspirations and objectives, which, although quite reasonable, are nevertheless debatable. There may well be a case for the encouragement of exports through consortia of firms, which need the sponsorship of such a body as the new I.R.C. before they can be formed, but if their feasibility and profitability have not already attracted attention from existing bodies, why are they deemed desirable at public expense?

The basic weakness of the statements – they are not arguments – in the White Paper lies in the implicit assumption that the existing mechanisms within the economy have failed to work to the national interest. Smaller as well as less efficient firms are apparently to be brought to new heights of productivity and exporting by Government-sponsored help in a way that the existing City and industrial institutions cannot hope to emulate. This is a somewhat doubtful claim. Most of the merchant banks and finance houses have a considerable reputation for seeking out profits; more than one has a reputation for taking an interest in medium-sized inefficient firms and greatly increasing their profitability. What, then, is left for the I.R.C. to do?

The fear that permeates many minds in industry at present is that the organization will involve itself with inefficient firms which will merely absorb taxpayers' money without generating an equivalent return. Even worse is the possibility that, when the first efforts to overhaul such firms, or groupings thereof, have failed to yield the expected benefits, they will be given priority in the matter of contracts from Government departments. The White Paper must of necessity make the point that the I.R.C. will not support ventures 'which have no prospect of achieving eventual viability'. This merely recalls to mind the 'infant' industries whose protection is prolonged for many years. Nobody reviewing the history of the nationalized industries' finances would really expect the Government to enforce the criterion of profitability upon its own creations. It would be preferable if the Government would concentrate on its proper job, i.e. the creation of an economic climate conducive to higher productivity and exports.

CAPITAL GAINS TAX

Transactions not at Arm's Length – I

THE well-known dictum that income tax is a tax on income is scarcely likely to be uttered in connection with capital gains tax because, despite its name, the tax can apply to all kinds of situations where there is no 'gain' in any sense. This is effected by deeming a person to receive a sum equal to the market value of the asset when he disposes of it by way of gift or at an undervalue. Section 22 (4) of the Finance Act, 1965, provides that a person's acquisition of an asset and the disposal of it to him shall, for capital gains tax purposes, be deemed to be for a consideration equal to the market value where, *inter alia*.,

> '(*a*) he acquires the asset otherwise than by way of a bargain made at arm's length and in particular where he acquires it by way of gift or by way of distribution from a company in respect of shares in the company'.

Section 22 (4) does not say what it means by 'arm's length', beyond giving the two instances in paragraph (*a*). In the White Paper on the short-term gains tax it was said that a sale at an undervalue was not at arm's length. Paragraph 17 of Schedule 7 to the Finance Act, 1965, applies where a person acquires an asset and the person making the disposal is 'connected' with him. It says that, without prejudice to section 22 (4), the two persons shall be treated as parties to a transaction otherwise than by way of bargain at arm's length.

Paragraph 21 of the same Schedule sets out the various ways in which persons can be connected with each other. The following table shows in each of the seven paragraphs, the persons connected with the 'person' designated in italics at the head of the paragraph.

A. Individual
(i) spouse of A.;
(ii) relative of A.;
(iii) spouse of (ii);
(iv) relative of (i).
('Relative' means brother, sister, ancestor, or lineal descendant.)

B. Trustee of settlement
(i) individual settlor;
(ii) person connected with (i);
(iii) body corporated with the settlement.
(These expressions are as defined in section 411 of the Income Tax Act, 1952.)

C. Person in partnership
(i) partner of C.;
(ii) spouse of (i);
(iii) relative of (i) (but not a relative of (ii)).
(This does not apply to transactions with partnership assets pursuant to bona fide commercial arrangements.)

D. Company (including any body corporate and unincorporated association but not a partnership)
Company
(*a*) if (i) the same person has control of both that company and D.; or
(ii) a person has control of one and persons connected with him (or he and they together) have control of the other; or
(*b*) if the two groups controlling the two companies
(i) consist of the same persons; or
(ii) could be regarded as consisting of the same persons by treating a member of either group as replaced by a person with whom he is connected (or two or more such replacements).
('Control' has the same meaning as in Schedule 18, paragraph 3.)

E. Company (as above)
(i) Person alone having control of E.
(ii) Person having control of E. with persons connected with him.

F. Person
One or more other persons acting with F. to secure or exercise control of a company.

G. Person acting to secure or exercise control of a company
The persons directing G.
(In F. and G. the resulting connection is only 'in relation to' the company.)

It will be seen that the above rules are identical with the corresponding rules in paragraph 18 of Schedule 9 to the Finance Act, 1962 (as amended) in relation to short-term gains, except that a 'body corporate connected with the settlement' is brought in as being connected with the trustee of that settlement. The rules must not be confused with the rules in paragraph 5 of Schedule 18 to the Finance Act, 1965, for determining, for 'close company' purposes, who is an 'associate' of whom. This separate (and less searching) code of rules was discussed in our issue of July 3rd, 1965.

Coming back to paragraph 17 of Schedule 7 to the Finance Act, 1965, there is a mandatory injunction to adopt the market value in the case of all disposals between connected persons; no matter how much the transaction may in fact have been at arm's length. However, common sense will surely break in. If there has been a sale which in fact was at arm's length, the sale price ought to be accepted as the best evidence of the market value.

Although grasping eagerly at tax on profits or rather deemed profits, paragraph 17 shows a distinct reluctance to allow losses. On a disposal between connected persons any loss is not deductible except from a disposal between the same persons at a time when they are connected (paragraph 17 (3)). If the asset passing from X. to Y. who are connected is an option given by X., then Y. cannot claim a loss on its redisposal unless it is at arm's length to a person not connected with Y. (paragraph 17 (4)).

Paragraph 17 winds up in sub-paragraph (5) with an attack on an expected avoidance device; a device intended to depress the 'market value' artificially. It is a common phenomenon that when a right exists over an asset, its existence can depress the value of that asset by more than the intrinsic value of the right. Thus the right at all times to stroll round the inside of a house, although not of much value in itself, must considerably reduce the attractiveness, and therefore the value, of the house to any stranger who is contemplating buying it for occupation. However, a farmer might well give a house to his son while reserving such right; the son knowing that in practice he has nothing to fear from it. Paragraph 17 (5) requires the house to be valued on the footing that it is not subject to such right. From this may be deducted the *smaller* of:

(i) the market value of the right; or

(ii) the amount by which the extinction of such a right would enhance the value of the house.

However, there are three cases where *no* deduction can be made from the market value; i.e. where

(i) the right or restriction is of such a nature that its enforcement would or might effectively destroy or substantially impair the value of the asset without bringing any countervailing advantage to the disponor or to a person connected with him; or

(ii) the right is an option to acquire the asset; or

(iii) the asset is incorporeal and the right is to extinguish the asset by merger, forfeiture or otherwise.

It follows that where any person contemplates (other than in a lease or mortgage) disposing of property subject to rights or restrictions he must be very careful to make sure that the person buying the property is not connected with him in any of the devious ways laid down in paragraph 21 of Schedule 7.

It is a remarkable feature of the special provisions of paragraph 17 that they apply only where disposor and disposee are connected; they do not apply generally to transactions which are not at arm's length.

Although a person is connected with his spouse, there are special provisions in paragraph 20 dealing with transactions between the two, provided they are living together. Disposals between them are to be deemed to be for such a consideration as produces neither gain nor loss. There are two exceptions only to this general rule, i.e. where

(*a*) the asset is trading stock in the hands of disponor or disponee; or

(*b*) the disposal is a deemed disposal on death.

Paragraph 20 overrides the other provisions in the Act for computing the proceeds or deemed proceeds of a disposal. What one can say in favour of paragraph 20 is that it puts a premium on married couples living together. It also encourages husbands to make gifts to their wives while still alive.

Another avoidance device is the target of paragraph 16 of Schedule 7. This is aimed against donors who make gifts in a series in order artificially to depress the aggregate market value of the total gift. If a person receives assets from a connected person by way of two or more gifts or other transactions, and the aggregate market value of the assets (valued as a whole) exceeds the aggregate of separate market values, then the latter are to be increased rateably. One example which springs to mind is the gift of a single earring, followed by a gift of its fellow. However, the question arises as to how long the matter can remain in abeyance. If the donor refuses to give the second earring until all questions of capital gains tax liability on the first gift is settled, it does not seem that paragraph 16 can be of much help to the Inland Revenue. Or perhaps the donor can give one each to two different people and hope that they will take turns at wearing the earrings.

Industrious avoiders of stamp duty on transfers have long known that there are ways of making gifts without using documents which attract 'voluntary disposition' duty on the full value of what is the real gift. Three different devices which have been used in stamp duty avoidance are the subject of attack by paragraph 15 of Schedule 7. Briefly they involve the abrogation of the donor's rights in relation to the property going to the donee.

(*To be continued.*)

Current Affairs

Municipal Treasurers' Examinations

A TOTAL of 1,217 candidates sat for the examinations of The Institute of Municipal Treasurers and Accountants held last November. The results now announced show that of the 381 candidates who sat for Part A of the Final, 119 (31 per cent) were successful; in Part B, 248 candidates sat and 103 (42 per cent) passed.

Prizes and places have been awarded on the combined results of the May 1965 and November 1965 examinations and in the Final examination the First Place and prize of 25 guineas, together with the Arthur Collins Memorial Gold Medal, were won by Mr John Alan Parkes, of the County Treasurer's Department, Derbyshire. The Second Place was won by Mr Cyril Robert Tomkins, of the Borough Treasurer's Department, Grimsby, and Third Place by Mr Malcolm Allsop, also of the County Treasurer's Department, Derbyshire.

There were 588 candidates for the Intermediate examination, of whom 188 (32 per cent) passed, the First Place and prize of 15 guineas (incorporating the Philip Howes Memorial Prize) being won by Mr David Frederick Hill, of the City Treasurer's Department, Nottingham. The Second Place was won by Mr Alan Frederick Smith, of the Borough Treasurer's Department, Colchester, and Third Place by Mr John Thomas Grand, of the County Treasurer's Department, Norfolk.

The names of the successful candidates in Parts A and B of the Final, together with a summary of the complete results, appear elsewhere in this issue.

Accounts of Stock Exchange Member Firms

THE recent failure of stockbrokers Edward Cutbill & Co has, it seems, brought to a head doubts on the London Stock Exchange regarding the adequacy of the rules on member firms' accounts. In an announcement last week, the Stock Exchange Council stated that it is giving urgent and active consideration to tightening the rules.

The present regulations do not require balance sheets to be produced to the Council; under Rule 79a, firms' accountants every year have to submit a report, a copy of which is sent to the Council. In this report the accountants confirm certain matters, in particular that they have inspected the authorities under which securities belonging to clients have been pledged and that the requisite margin of solvency is present at the balance sheet date.

The Council's practice in the past has been to require the production of a firm's balance sheet if there is prima facie evidence of contravention of the rules. In future, according to last week's statement, the Council will require the balance sheet to be produced for any reason which they may consider necessary. For example, firms have to make frequent and regular returns as to contangos and cash and new business and the Council might require to be satisfied as to a firm's balance sheet in the light of information supplied under this return.

If the Council do decide to require the production of balance sheets every year, it will probably mean that the Council's accountant adviser will, where necessary, make further inquiries and report to the Council on such matters as the nature and recoverability of assets, the provision for bad and doubtful debts and the security provided against bank loans.

Wage-related Welfare Benefits

WHILE the timing of the Government's new proposals for wage-related sickness and unemployment benefits has attracted some criticism, the objects of its Bill deserve more sympathetic consideration. The scheme, which is planned to start by next October, will provide additional benefits of up to £7 per week for a maximum of six months for those earning between £9 and £30 per week. For example, a single person earning £12 per week would receive £5 per week benefit, i.e. £4 flat rate benefit and £1 supplement. If married with four children he would, given the same rate of pay, receive £10 4*s*. A man with two children earning £18 per week, would get £11 7*s* and, if he had earnings of £30 per week, his benefit would be £15 7*s*.

Some simplification of the conditions attached to the receipt of unemployment benefit will be modified; likewise the conditions for benefit in the case of workers laid off temporarily or put on 'short-time' will also be

reviewed. The new benefits will be financed by a further graduated contribution, up to a maximum of 2s 1d per week on the earnings between £9 and £30 per week, shared between employers and employees.

To the extent that the Bill should help ease the fears of redundancy and thereby help improve labour mobility, its proposals are to be welcomed. There is no just reason why a worker who is laid off through no fault of his own should be reduced from relative comfort one week to near penury the next, owing to the catastrophic drop in his take-home pay. Had the Bill concentrated on this especially desirable provision, instead of extending it also to the sick, the rate of benefit could have been substantially increased, or the cost of the proposed benefits reduced. The Bill will add a further £76 million to the National Insurance contributions, of which only £19 million will finance the higher unemployment benefit, whereas £44 million will go to the sick.

Not all the time lost which is ascribed to sickness can be genuinely explained on this ground. There is a real danger, to which a spokesman of the Confederation of British Industry has already drawn attention, that the benefits are so high, in some cases, that they constitute an invitation to absenteeism.

Consumer Protection

IN a highly organized industrial society dominated by producer and labour interests, it is not surprising that from time to time attempts are made to redress the balance and give the consumer a modicum of protection both against inefficiency and poor quality products. The Molony Committee, which reported on consumer protection almost three years ago, was especially concerned with descriptions of products used in advertisements and, not least, the present-day practice of 'dual-pricing'. Now the Government has proposed legislation contained in the Protection of Consumers (Trade Descriptions) Bill which follows closely on the committee's recommendations and, in some cases, goes beyond them.

The object of the proposed legislation is to replace and extend the existing law relating to merchandise marks. It makes the enforcement of the law mandatory instead of, as hitherto, discretionary, upon the appropriate authorities, i.e. the weights and measures inspectors of the local authorities. The increased cost of such work to the local councils will be substantially reimbursed by the Government. It will also still be possible for private persons to institute prosecutions.

The Bill has two main parts: that dealing with false descriptions, and second, that requiring specific information to be given in advertisements. Thus, specious assertions in advertisements that the goods were up to some spurious standards would constitute an offence.

The present popular practice of marking goods at '6d off' will now have to be reviewed. The Bill provides that the previous price should be one that has been established over the previous six months, then, if such claims are to be made, the consumer may know just what discount is being received. One interesting addition in the Bill to the proposals of the Molony Committee concerns services. While the committee omitted these from their terms of reference, the Bill proposes that false statements or claims regarding services, e.g. accommodation or facilities, shall be illegal.

Budget Exhortations

AT this time of the year crocuses are not more certain to appear than exhortations to the Chancellor of the Exchequer about what action he should take in his next Budget. This year there is more reason than ever before for such representations; the Finance Act, 1965, has seen to that.

A letter from the president of the Association of British Chambers of Commerce to the Chancellor makes a number of telling points. It starts by expressing the non-belief of business men that profits should be ploughed back regardless of the circumstances; that apparent capital appreciation through inflation should be taxed; that close companies should be penalized for proper commercial transactions; that restrictions on overseas investment necessarily benefits the economy. The Association repeats its support for a swing to more indirect taxation in respect of 'optional expenditure' such as gambling, the taxation of which is now easier in view of the widespread, open use of betting shops.

The letter has a good deal to say about the present structure of direct taxation. It thinks the corporation tax rate should be announced at the beginning of the year, not at the end; that grouping of profits and losses should be allowed; that close companies with modest profits should have some relief as in other companies; that commercial buildings should rank for capital allowances; that section 468 of the Income Tax Act, 1952 (migration of companies) should be repealed; that individual shareholders should have some relief for the corporation tax borne out of the profits from which their dividends come; that companies should be allowed to set off capital losses against revenue gains; that estate duty should be modernized; and that stamp duties should be gradually repealed.

The letter even includes some thanks – for the explanatory booklets which appeared with the Finance Bill, 1965. It concludes by hoping that such booklets will accompany the next Bill. (Even more acceptable would be a Bill which did not need such notes.)

There is also a memorandum from the Chairman of the British National Committee of the International Chamber of Commerce, which naturally concentrates on the international aspects of taxation. It asks for overspill double tax relief against tax on dividends, where the company paying the dividends has not absorbed full relief in the corporation tax computation. An example shows that an individual shareholder in a

company having a United States subsidiary may in effect suffer an aggregate tax of 74 per cent of the subsidiary's profits even though he pays no surtax. The point is also made that if the United Kingdom withholding tax is not reduced, there will be a flight of capital to countries having more reasonable tax laws. The memorandum asks for the right of a taxpayer to aggregate his overseas income for the purpose of computing the aggregate double relief.

New Plan for Scotland

A NEW White Paper[1] on Scotland was issued last week by the Government. Its aim is to speed up the modernization of the country's industrial structure and to stop the flow of young people southward. It is claimed that this is the first regional development document to be embodied in the National Plan for up to 1970 issued last September.

The priority objectives are to increase the number of jobs available in Scotland by 1970 by between 50,000 and 60,000. These targets can be reached only with a public investment programme totalling £2,000 million over five years. This rate of investment is about £390 million a year compared with average annual spending in the last five years of about £312 million.

Ambitious schemes are outlined to attract more industries, and new growth points are defined in such areas as the Borders, Dundee, Aberdeen and Dumfries. Increased investment in housing, education, and communications, as well as new measures to help labour training and retraining are mentioned.

In the last decade Scotland has done more clear and original thinking on regional development (for example the Toothill Report) than most areas but this new plan does not fit entirely into the Toothill Report's ideas about growth. There seems to be some danger in this last White Paper that the growth points will be too scattered to give the necessary quick impact over the five-year period. Scotland's fastest and indeed most explosive growth area is still between the basins of the Clyde and Forth, and there would seem to be much to be said for stimulating high capital investment along with the new towns and a radically altered policy on house rents in this area (bringing in with it the replanning of the Glasgow area) than in scattering the impact over a wide area. Such solutions may not be politically attractive, but they might be economically quicker to produce results.

Crisis Resolved for E.C.M.

OVER last week-end the French Government accepted the substance, if not entirely the form, of the point of view of other members of the European Economic Community and so ended a crisis which has continued since last summer. It seems likely that the French Government's more amenable attitude to compromise has come about since the Presidential election in France, when it became clear that there is a considerable body of vocal opinion with some political power which favours the idea of the European Economic Community as both a political and economic idea. If this is true, it seems likely that President de Gaulle will adopt a conciliatory attitude towards the E.E.C. until after the French elections in 1967.

France had objected to two ideas which have been accepted by other members of the Community. The first of these was the need for unanimous voting on important issues. France would not accept majority voting. Secondly, France objected to the growing authority which was becoming invested in the E.E.C. secretariat at Brussels. At the meeting in Luxembourg last week the French agreed to return to Brussels and resume normal work in the European Common Market on two generally agreed conditions. It was agreed to defer a decision as to whether the Council of Ministers shall ever take a majority decision on an important issue. The other five members think this is a legal possibility but both sides are agreed that it is not likely to be a practical one. Secondly, a seven-point programme has been agreed in which the Commission's independent status is reaffirmed and so is its sole right to initiate E.C.M. legislation. The Council of Ministers and the Commission are made equal and France's original insistence that the Commission should contact member Governments before taking major initiatives has been watered down to become merely 'desirable'.

All concerned have agreed to resume work immediately on outstanding matters and there is plenty of scope here for argument. Meanwhile, France has in fact made a tactical retreat but that does not rule out the possibility of an eventual tactical advance on a more propitious occasion.

Restrictive Practices in Building

THE construction industry in Britain has an output of over £3,000 million annually and employs directly 1·1 million workers. Just over half of the gross national investment is in construction, hence the efficiency of this industry is a matter for public concern. According to a research monograph published by the Institute of Economic Affairs entitled *Restrictive Practices in the Building Industry* (7s 6d net), restrictive practices at all levels, i.e. within the professions such as architects, among suppliers of materials and, not least, among the trades unions, cannot but limit competition and thereby productivity.

The authors, Messrs Frank Knox and Jossleyn Hennessy, concede that given the structure of the industry and the ease with which entrants can start up, restrictive practices are nevertheless of limited effectiveness. The passage of the Restrictive Practices Act in 1956 has considerably reduced the numerous manufacturing agreements that existed, but the authors note with regret that the Court has upheld the agree-

[1] *The Scottish Economy, 1965–70.* A plan for expansion, Cmnd. 2864, H.M.S.O. 12s 6d.

ments in the cement, metal windows and tiles industries. The grounds for these decisions are, the authors contend, open to question. In particular, they ask why the Court should have recognized the value of competition among the metal window producers, yet have permitted the continuation of the Metal Window Association.

The worst restrictive practices are to be found in the craft unions. The authors criticize the extensive demarcation agreements between the unions since 'the need for an agreement is prima facie evidence that members of both the unions concerned could do the disputed job'. The demarcation practices 'result in a large national waste of scarce manpower and resources in wholly unnecessary work'. The authors are highly critical of the apprenticeship courses which, even though reduced from five to four years, are still too long. 'One absurdity about an apprentice's certificate is that, in effect, it merely certifies that he has spent x years in y works. It is no guarantee of his competence, or even that he has been trained at all'. The interesting point concerning this state of affairs is not that the authors' findings are new. It is that nothing has been done so far to alter these practices.

The effects and scale of professional associations' practices are described briefly, but a fuller treatment is provided in Professor D. S. Lees' paper which we discuss in a leading article on another page.

This is My Life

by An Industrious Accountant

THE Christmas shopping period and the weeks immediately following it were marked by a great burst of consumer buying throughout the store. Our turnover graphs soared skywards. Only one gloomy Jeremiah was left out in the cold and he had problems all of his own.

Ilkley, our shirt-factory manager, slapped his big ham-like fist on the table. His moon-shaped face was red with mortification. 'It's nobbut a daft crazy scandal' he stormed, 'and we'll have to pound some sense into the directors' thick heads reet now'.

I murmured something about 'softly, softly, catchee monkey', but my own thoughts were in a whirl. There was no way to get him out of the mess that I could see. His graphs were running downhill. His products weren't selling; the public didn't want them.

Ten years ago Ilkley overestimated the demand for the highly-boosted but improved drip-dry models; we invested heavily in new plant of appallingly rapid obsolescence; demand dwindled.

Up to last year he underestimated the merits of the flood of new man-made fibres and pushed his poplins and woollens determinedly, cutting his prices to the bone to beat the competition.

Then he opted for quality in his summer lightweights, and missed out on the towelling and cheap fancy-designed lines that went so well. Regrouping his resources, he asked the board for a budget for new plant, just when the national credit squeeze was at its tightest, and was turned down flat. Luck deserted him.

Ilkley is no fool and he fought hard. Unfortunately, he tried to hustle his biggest customer – our shirt department buyer. On principle we run the factory and the department as autonomous units, having learned by bitter experience in the past. 'Why should the department agree to stock outside lines in competition with mine?' raged the S.F.M. 'Why should I send good customers away empty-handed if they ask for other brand names?' retorted the buyer, his dignity ruffled. The directors feel that the prices and saleability of the non-domestic products provide a yardstick by which Ilkley's efficiency can be measured – by himself as well as others; he must be able to compete in open market. His pressure for priority in display space proved unjustified when the other counters showed higher percentage increases, despite his outlay on transparent wrapping and fancy boxings, and the directors put the pressure on relentlessly.

His office walls are covered with pictures of past styles, waxed-moustached characters in stiff collars, bowler-hatted dandies with tightly-fastened tabs holding the collars down, and modern beachwear. 'The factory profits kept our heads above water in the depression', he insisted, 't'other departments should carry us now. Can't you plan a series of subsidies based on turnover to tide us over?'

He was over-optimistic if he hoped he could sell that one to the board; their point is that we've money locked away in his buildings and plant that's earning an inadequate return. The solution of closing the place down and selling out at a loss is distasteful; we've long-service staff there whose futures must be considered, and the commercial goodwill of decades is valuable even if diminishing. Jam tomorrow will prove more attractive than jam yesterday at next week's board meeting, however; a solution is imperative.

He will have to reorganize his production to get his designs and prices right, I urged, for the factory to survive. Neither of us mentioned the alternative solution which was in both our minds as a possibility.

Engaging Gear

English Institute's Approach to Training for the Profession

by A. M. BOURN, B.Sc.(Econ.), A.C.A.
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THIRTY-FIVE years ago the man who owned a model T Ford motor-car must have been well satisfied. He had a practical means of private transport which was cheap. But if the average motorist of today were asked to drive the model T, he would undoubtedly draw an invidious comparison with his contemporary vehicle. Sophistication has brought greater cost, which the motorist is prepared to bear in order to gain the advantages of more efficient transit from A to B. Education for the accountancy profession in England and Wales is still for the most part in the model T era; it is practical and cheap.

Any attempt to formulate the objectives of education is fraught with danger. Nevertheless, anyone who works in the educational sphere must try to determine his overall aims. In the writer's view, there are three:

(i) the maintenance and development of the existing body of knowledge;
(ii) the guidance of the moral and intellectual development of the student;
(iii) the equipping of the student to earn his living – this will apply particularly to education in those subjects, including accounting, which are usually studied with some vocational intent in mind.

One of the crucial problems of education is to find the right blend of these objectives. The main purpose of this article is to review the present arrangements for education and training established by The Institute of Chartered Accountants in England and Wales, using these objectives as criteria.

PRE-QUALIFICATION TRAINING

The Parker Committee expressed the view that

> 'The prime requirement of a candidate for admission to the Institute is that, with the background of a good liberal education, he should have developed in ethics, outlook and conduct, the characteristics appropriate to that membership. The other two essential requirements are that he should have a basic theoretical knowledge of all aspects of the work of the profession, and that he should have had sufficient practical experience of professional work to develop method, versatility and powers of judgement and to demonstrate that he is capable of carrying out professional work in a manner which will uphold the standards of the Institute.'

Technical knowledge and experience are thus explicitly stated to be subordinate to the development of an appropriate code of professional behaviour. The President of the Institute confirmed this view when presenting prizes and certificates of merit won in the May 1964 examinations.

Education is concerned with the moral development of the student. Particularly in the case of aspirants to membership of the professions, there is good justification for concern with the code of professional conduct, although one might not agree that it should take precedence over technical knowledge and experience. The relatively small number of occasions on which a member is even reprimanded is sufficient evidence that the high standards of conduct expected are satisfactorily met, although they are inexactly formulated and informally taught and tested. This is perhaps reflected in the popular image of the profession, which may be is unflattering but generally respectful.

The aims of technical training must be to pass on established knowledge and to help to equip the student to earn a living. Some development of intelligence should preferably ensue. The arrangements for the technical training of the aspiring member are naturally complex. The two main requirements are that he shall have served articles with a member in practice in the United Kingdom, and that he shall have passed the examinations of the Institute. These requirements dominate the training of the aspiring chartered accountant in England and Wales.

Articled service

Although special concessions are made to graduates and those with G.C.E. advanced-level passes, the minimum qualification for entry into articles remains six passes at ordinary level, obtained in any two sittings. About two-thirds of articled clerks establish their eligibility in this way.

It has been suggested that, in order to further the objective of raising the general educational standard, the Institute should follow the lead of those other professional bodies, such as the Law Society, the Inns of Court, and the Royal Institute of British Architects, which have raised their minimum qualification to include two passes at advanced level. It is argued that the rapid expansion of facilities for higher education which has already taken place, and which is projected for the future in the Report of the Committee on Higher Education (the Robbins Report), will mean that many of the young men who formerly entered articles after their G.C.E. ordinary level examinations will, in future, remain at school to attempt the advanced level examination, with a view to entering university.

Since its minimum educational qualification is so much lower, entry into the Institute may be acceptable to the average grammar or high school boy as long as university entrance is not his general 'career expectation'. Once this *is* his expectation, and every year it is becoming more so, the less able boys are likely to predominate amongst the applicants for articles. It is further suggested that the reduction of one year in the period of articles will not be a sufficient bribe to induce those students who prove themselves good enough to go up to a university to come instead into the accountancy profession.

Various arguments are put forward against this proposal. In particular, many principals undoubtedly feel that they can make better accountants and professional men from their 16-year-old entrants, than from those who are more mature at entry. This may be so; it will, of course, depend on what the principal understands by 'a better accountant'.

It is also asked whether the Institute should increase its entry standards if the effect is to reduce recruitment of candidates who, in past experience, have proved to be useful

members of the profession.[1] Assuming that the supply of such candidates is not too much reduced, this is a valid query. On the other hand, the present and continuing rush of developments in the field of business data processing and analysis tends to make arguments based wholly on past experience in no small degree irrelevant.

This is undoubtedly a significant policy problem which will have to be kept under review, and in which the hand of the Institute may well be forced by the decisions of other bodies in other professions.

The whole concept of articles has also been attacked, as well as the policy on minimum educational standards. The justification for the retention of the system given in the Parker Report is extraordinary. By describing professional training as 'professional upbringing' the committee was able, using a delightful play on words, to introduce the concept of 'parenthood' into the relationship between clerk and employer. The committee then asserted that those traits of character which are the roots of professional ethics and outlook can best be acquired unconsciously by 'parental' example; furthermore, there is no better means known whereby this relationship can be created, than by the system of articles. No argument whatever is put forward in support of these assertions. Nevertheless, the committee concluded 'without hesitation' that articles should be retained. Such conclusions on such an important matter should surely be founded on logical argument based on clearly ascertained and stated facts, not on second-rate semantics.

The advantages of articled service, as opposed to relevant practical experience, seem to be largely illusory. The system has some real disadvantages, however. It places responsibility for a man's professional 'upbringing' firmly in the hands of an amateur, moreover an amateur who with the best will in the world is likely to find himself continually facing other more pressing and immediate problems. Amateur guidance based on learning by experience is, in any case, likely to encourage the imitation of technical procedures, instead of the emulation of the thought processes by which they were developed, and which therefore govern their application.

Furthermore, the student who is confined to one employer may find himself unable to acquire that practical experience which is the valuable object of the system, because of the inadequacy of the employer's practice as a teaching vehicle. Should both employer and employee be satisfied, there is no need for a binding contract of service. Should either be dissatisfied, there seems to be no advantage to be gained from compelling them to serve out the full period of the contract. Yet the Council have accepted the recommendation of the Parker Committee that even *transfers* of articles 'should continue to be permitted but should not be advocated'.

The minimum period of study leave granted to a clerk serving five-year articles has been raised to twenty-one weeks. This generous allowance is sometimes quoted to justify both the system of articles and the low level of payment generally made to articled clerks. In England, in 1962, over half a million young employees were taking part in systematic education during working hours. Many were serving apprenticeships to various trades; many were not. Sandwich courses are now being developed in a growing number of teaching institutions to prepare students for the examinations of the Cost and Works Institute, and in some cases for those of the Certified Accountants.

Thorough training is obviously possible, though of course not guaranteed, without any contract of articles. But neither can the present contract of articles guarantee that the time allowed will be used to undertake a thorough training. Indeed, since between 50 and 55 per cent of the candidates fail the Institute's examinations, there is every indication that the present methods are inefficient.

Since the principal should also benefit from the improved abilities which the clerk should display following his study leave, the force of the argument that the leave compensates for low payment is diminished. The *Practitioner Enquiry* report, published by the Institute in 1964, showed salaries offered, even to graduates in articles, that would insult a mediocre copy-typist. Market forces are slowly adjusting this situation, but in the meantime such rates of payment naturally influence markedly the attitude of graduates against choosing a career in accountancy.

Position of graduates

The opportunity cost to the graduate of taking articles is high. This is clearly revealed in the booklet *Graduates Articled in Chartered Accountancy*, in which the appointments officers of the universities of Manchester, Newcastle and Durham, and Nottingham tabulated the results of an inquiry, carried out with the active help of the Institute, into the careers of all the graduates who entered articles during the period 1952–63. There is no reason to suppose that the same attitude is not created in many school-leavers. One does not need to study the theory of discounted cash flow in order to appreciate the importance of a quick return. This is particularly so when it is not always easy to demonstrate that the career financial prospects of the typical employed accountant are any more than average for professional and managerial work.

The Parker Report quotes extracts from memoranda submitted in response to invitations sent to Unilever and I.C.I., in which these companies (or presumably their senior accountants) declare themselves to be firmly in favour of retaining the restriction to practising members of the right to take articled clerks. Neither produced very cogent argument for this point of view, however, and the Parker Committee added no thoughts of their own. The extract from the I.C.I. memorandum consists of four pontifical assertions that the only way to train a chartered accountant is to make him serve articles with a practising member, but completely omits to say why. The extract from the Unilever memorandum makes one or two sound enough comments on the advantages of 'professional' training but, in denigrating 'industrial' training, it resorts to the quaint suggestion that 'industry cannot entirely provide . . . the background of slowly increasing responsibility which is the essence of the apprenticeship system'.

Half of the Institute's members are now in industrial or commercial employment. An even higher proportion of new members is moving out of professional practice. There must be considerable doubt as to whether the modest arguments adduced by the Parker Committee in favour of confining their employment during their practical training to service under articles in a professional office, are valid. There is good reason to think that the whole system of articled service has outlived its usefulness and should be replaced by a general requirement to gain relevant practical experience; and that the minimum educational qualification for registration as a student should be raised. The modifica-

[1] See, for example, Bertram Nelson, 'The Work of the Education Committee of the Institute', in *The Accountant*, August 22nd, 1964.

tions made as a result of the Parker Committee's recommendations only toy with the problem.

From many of these strictures the Institute of Cost and Works Accountants is exempt. It manages without articled service. So do most certified accountants. So do most other bodies of accountants in the world. So do most other professions.

Examinations

The Council has endorsed recommendation 45 of the Parker Report

> 'That the Institute should not feel bound as a matter of principle to confine itself to being an examining body, but should consider itself free to intervene directly or indirectly in the arrangements for study and tuition to such an extent as may appear to be necessary from time to time.'

But the Institute has so far neither assumed responsibility for arranging formal tuition for its examinations, nor approved other institutions to examine on its behalf. Examiners and tutors are therefore separate, and the examinations determine the content of the courses of study. The examinations are therefore an important element in educational policy. In these circumstances it is surprising that there should exist as separate bodies both an Education Committee and an Examinations Committee. Until January 1963 there was no one committee responsible for educational policy. The present committee is a development of the Committee on Relations with the Universities, itself founded only in 1961. It may be that the brief existence of the Education Committee as yet precludes the taking of the obvious logical step of making the Examinations Committee a subcommittee of the Education Committee.

I have commented at greater length elsewhere on what I consider to be the significant points about the examinations.[2] If one accepts the arguments there put forward, that the examinations are an inadequate test of practical competence and cause all students to specialize in one branch of accountancy work, one must conclude that revision of the basic approach of the Institute to examining is urgent.

TRAINING METHODS

The methods used to train aspiring members must be determined on the one hand by the requirements of the Institute and on the other by the educational facilities available. The Institute's requirements have been outlined above, viz.:

(1) all aspirants to membership must serve articles with a member in practice in the United Kingdom, and pass the Institute's examinations;

(2) the Institute has published a syllabus for its examinations, but has neither assumed responsibility for arranging formal tuition for them nor approved other institutions to examine on its behalf.

Three main types of educational facility exist which might be used to pursue the study of accountancy. They are the universities, the technical colleges andc olleges of commerce, and the private tutorial organizations, mainly correspondence tutors.

The universities

The English and Welsh universities are autonomous institutions which are, however, largely and increasingly financed by public funds. Their growth has taken place generally over the same time period as that of the accountancy profession; for example, the original University College in Liverpool was incorporated by Charter in 1881. Nevertheless, accounting studies have never been strongly represented at university level, despite the conclusion of the Robbins Report that a group of subjects, including accounting, which are relevant to business problems

> 'are well developed. In each case there is a sizeable body of agreed principles and a readily accessible and intelligible literature. They are eminently suited for study at the first degree level, either in combination with courses in social studies or grouped with technology.'

The pioneering effort of the University of Birmingham, in establishing a Faculty of Commerce and a Chair of Accountancy in 1904, produced no immediate imitators. The present situation is that the chair at Birmingham is vacant; until a new appointment is made 20 per cent of the chairs of accounting in England and Wales will be unfilled!

It is generally only since the Second World War that accountancy has become at all firmly established as a suitable subject for university study against the many other claimants for the limited resources available. During the Second World War the main accounting bodies opened discussions with various universities through the medium of a joint committee under the chairmanship of Sir Arnold (later Lord) McNair, then Vice-Chancellor of the University of Liverpool.

The McNair Committee proposed that degree courses should be instituted with the object of affording the universities 'the medium for giving the student a liberal education and an intellectual discipline', and to enable the student 'to understand the principles underlying his profession and to derive greater profit from his actual experience in the office'. The committee's proposals have remained largely unaltered since the inception of the courses after the Second World War. Normally economics, accountancy and law are read in each of the three years of the course, with a choice of subsidiary subjects. The committee firmly expressed the view that

> 'the degree course for prospective accountants should have as its central subject economics. . . . We are satisfied that there is no other subject which can afford to prospective accountants an intellectual discipline and a body of principle of greater value to them in the practice of their profession.'

Graduates of the courses are offered the usual reduction of articled service to three years, and can also claim exemption from the professional Intermediate examinations. The Institute of Cost and Works Accountants has so far been excluded from the scheme, although it offers certain examination exemptions to graduates of the courses.

The McNair Committee estimated that the annual intake of students might be about two hundred. This total was first reached in 1956–57. Both the scheme and the courses have had a mixed reception from the profession, but they are now winning a wider acceptance. The Parker Report gave at the most only lukewarm support to the scheme, saying

> 'The only conclusion we can reach is that even after fifteen years there is still not enough evidence to show whether in general the scheme should be encouraged or abandoned or changed or left as it is. We therefore favour

[2]See, 'A Question of Degree' in *Accountancy*, January and February 1965.

leaving it substantially as it is pending still further experience of its value.'[3]

In contrast, the third report of the Joint Standing Committee of the Universities and the Accountancy Profession, published eighteen months later, notes that up to November 1962, 1,008 graduates had been exempted from the Intermediate examinations of the Institute, Association or Society, and spoke of the 'significant contribution which the scheme is making to the graduate intake into the profession'.

Such an achievement is paltry compared with the United States experience of 80 per cent graduate intake, and the rapidly spreading State requirement of a college degree or four years of college study as a condition of taking the Certified Public Accountant examinations (although it must be remembered that not all American 'colleges' are equivalent to the British universities).

There is a volume of opinion which holds that such an extensive graduate intake is unnecessary and even inappropriate. In a brief article entitled 'What is the use of accountants?' in its issue of November 21st, 1964, *The Economist* said:

> 'But before any real educational reform happens the profession needs to ask itself just what it is at. The bulk of all accounting work – in small town firms, in the lower ranks of industry – requires nothing like a graduate standard . . . in short, the people who are predicting that the accountants will eventually have to split into two quite different levels of qualification have reason on their side.'

A broadly similar view was put forward by R. W. V. Dickerson in his report *Recruitment and Training for the I.M.T.A.* Three of his principal conclusions were:

(*a*) The Institute of Municipal Treasurers and Accountants should accept that there is a broad and fundamental difference between the education and training needed by the financial administrator in local and public authorities and by those in less responsible accountancy posts.

(*b*) As part of the movement towards the adoption of a two-stream arrangement for the recruitment and training of financial administrators on the one hand and accountants on the other, the I.M.T.A. should raise its minimum educational requirements for entry to the financial administrator stream to demand a minimum of two passes at advanced level in the G.C.E.

(*c*) The education and training of recruits to the financial administrator category should be entrusted largely to the universities and colleges, with detailed arrangements to be worked out jointly between the interested universities and colleges and the I.M.T.A.

These points suggest clearly that whether one accepts the *status quo*, the American view, or the view that some graded qualification system is more appropriate, the joint scheme should be one of the most useful avenues of educational development available to the profession in England and Wales. For this to happen, there must be a firm and persistent interest taken by the professional bodies, and a sizeable financial contribution from them.

The course at Liverpool is each year several times oversubscribed, although not all applicants are able to satisfy the standards for admission. This is undoubtedly the experience in greater or lesser degree of the other universities in the joint scheme. A demand for places exists, but accountancy has not yet staked a strong enough claim in the competition for the limited funds available for the demand to be met fully. The endowment of academic posts, possibly by covenant, would help to provide for a measure of expansion; the cost of the posts once they are firmly established could no doubt be coaxed from the public purse. At the moment three research fellowships are financed by funds indirectly under the control of the Institute. The one chair so financed is occupied by an eminent economist, Professor Stone, at Cambridge, a university in which no accounting is taught. The contributions made by the professional bodies directly out of their own funds terminated only a few years after the start of the joint scheme's operation. The probable broadening of career prospects resulting from such extra finance might also help to increase the sparse supply of suitably qualified applicants for academic posts, another of the major problems, caused in part by the narrowness of the profession's training, which must be solved if accounting is to develop more rapidly as a university subject.

The technical colleges

Technical colleges are institutions of further education run by local education authorities and devoted to technical training for a broad range of industries and professions. The more senior colleges now offer some degree courses, and the colleges of advanced technology are being raised to university status following the recommendation in paragraph 392 of the Robbins Report that 'these colleges should in general become technological universities'. Those which specialize in commercial training are known as colleges of commerce, although most colleges of any size have a commercial department.

Tuition may cover the full range from elementary to advanced trade training. Attendance may be in the evenings or on a basis of part-time day release, or on sandwich courses mixing periods of college training with periods of practical experience, or it may be full-time. In 1962–63, of 151,000 advanced students who were attending the technical colleges, 43,000 were full-time (or on sandwich courses), 53,000 were on part-time day release, and 55,000 attended in the evenings. Despite the excellent work done in many of the colleges, their general image has in the past been poor, but in recent years a considerable investment has been made in them and the present rate of growth is rapid.

Study for the examinations of the professional accounting bodies has not been widespread in the colleges, although book-keeping and some accountancy is taught in most colleges for a variety of diplomas and qualifications. There has been both a shortage of teachers, particularly for advanced work, and little consistent demand for courses. The lack of demand where facilities have been available has a number of causes, including the problems of regular attendance for a clerk who is engaged on audits away from his office, and the poor image of some colleges. In many instances there has been a complete unawareness on the part of both principals and clerks of what the colleges can offer.

However, developments have taken, or are taking, place. For example, a number of successful sandwich courses cater for the requirements of the Institute of Cost and Works Accountants, and of the certified accountants, as was noted above. Tuition for the examinations of the

[3]Mr Bertram Nelson strongly dissented from these remarks, and stressed the importance of increasing the small graduate intake into the profession. Fortunately, Mr Nelson is now chairman of the Institute's Education Committee.

Institute has not generally achieved the same measure of expansion, but the Education Committee is now sponsoring courses in certain of the colleges – a policy recommended by the Parker Committee. The committee arranged a study conference in July 1964 at the Further Education Staff College, Blagdon, at which members of the college staffs, representatives of the Institute's Council and district societies, and a small number of representatives of the universities and private tutorial organizations, met to discuss the educational and administrative problems involved. The Institute has published a report on the conference.

Initially it is intended to concentrate on providing introductory courses for newly-articled clerks as an induction to the profession; it is hoped that attendance on such a course will before long become compulsory for all articled clerks, except for some graduates. Some colleges already run other courses successfully. In Liverpool an experiment is being conducted in which a course of oral tuition in the College of Commerce is related to a correspondence course also being taken by the students. A number of colleges run pre-examination revision courses.

The Parker Report also recommended the development of introductory courses for both parts of the new Final examination. It seems likely that these courses will be launched when the introductory courses are fully under way, although it is probably fair to say that they have met with an unenthusiastic reception from the colleges. As Professor Solomons has pointed out, their educational purpose seems to be clouded in uncertainty, an impression which is strongly confirmed by the section, 'Objects and Contents of Later Courses', in the report of the Blagdon study conference.

These overtures represent something of a *volte-face* by the Institute. In 1949 a Special Committee on Education for Commerce, under the chairmanship of Sir Alexander Carr-Saunders, issued its report. It was highly critical of several aspects of the educational policy and methods of some professions, including accountancy. The committee's recommendations drew an indignant retort from the Council in 1951, in which the technical colleges were given very short shrift. The approaches now being made are undoubtedly indicative of a substantial change in the official attitude of the Institute towards education and training in recent years. Whatever the other merits and shortcomings of the Parker Report, it has undoubtedly stimulated general interest in these broad problems and has been the mainspring of most of the changes introduced in the last two or three years.

Correspondence tuition

It is perhaps even fair to say that it is only since the Parker Report, and particularly since the formation of the Education Committee, that there has been any consistent attempt to formulate and execute a coherent educational policy relevant to current and future conditions. The President has recently emphasized, both at the last annual meeting and in subsequent speeches, that the whole question of training is under review by the Council. There is some reason to hope that changes of some importance are being discussed. The engine is at last moving out of neutral.

Most of the 51 per cent who failed the Institute's Intermediate and the 53 per cent who failed the Final examination in March and May 1965, studied by correspondence course. It would be unfair to place on the tutors the whole responsibility for these disastrous results, which are the normal experience at the examination sessions held each year. Anyone with the ability and stamina to work steadily through the courses, which are only a rudimentary form of programmed learning, should have little difficulty with the examinations, although his grasp of the rationale of much of what he has studied may be imperfect. Nevertheless, there must be serious dissatisfaction, even from a narrow wholly-examination-oriented viewpoint, with a system which produces a failure rate of over one-half, and under which some 35 per cent of entrants into articles never qualify even after repeated attempts at the examinations, although they all satisfied the minimum requirements for admission into articles.

Part of the reason must also be the high standard of performance required in the accounting and book-keeping work which is examined. The Robbins Report commented that

> 'It is difficult to generalize about modes of preparation [for the examinations of professional bodies], but in most cases it can be said that, since the examinations are designed to maintain professional quality, the standards are severe. Criticism therefore is likely to be based much more on lack of humanistic breadth and upon narrow technicality than upon absence of intellectual difficulty. And we have little doubt that some of the criticism has in the past been justified. A lawyer, an accountant or a company secretary trained in this way [i.e. by correspondence course] was not likely to be lacking in professional knowledge as compared with his counterpart who had passed through a university or some other institution of higher education. But he was perhaps less likely to be sensitive to the general implications of his subject, and for that reason less aware of the currents of change.'

One wonders why this was written in the past tense.

The third factor influencing the poor examination record is the quality of the candidates. There is unfortunately no statistically-significant published evidence from which to draw detailed conclusions about the performance of candidates, analysed by their differing educational attainment and their various methods of study. The indications are that there is some positive correlation between educational attainment and examination success.

POST-QUALIFICATION EDUCATION

The Institute is aware of these problems. The measures which are being taken to remedy them have been mentioned already. The Education Committee has

> 'concentrated on two main themes, namely:
> (*a*) the recruitment to the profession of an increasing proportion of young men with more than the minimum educational standard of academic achievement for entry into articles; and
> (*b*) the establishment of introductory courses of oral tuition for articled clerks as a supplementation for the present method of almost complete reliance on correspondence tuition.'[4]

Also, the examinations have been modified. These are only the first steps in establishing a viable educational policy. No one would claim that they are an ultimate solution.

It is only at the post-qualification level that what John Stuart Mill termed the 'raising of the level of improvement'

[4]Bertram Nelson in 'The Work of the Education Committee of the Institute', *The Accountant*, August 22nd, 1964.

is likely to take place. A second object of this training must be the refreshment and development of the student's technical knowledge.

The post-qualification training ventures of the Institute have grown in both number and variety in recent years. The now firmly-established series of annual summer courses has been held ever since the Second World War. About one thousand members have attended short courses on the fundamentals of electronic data processing in the last eighteen months. More of these courses are to be held in future and a series of more advanced courses is being developed. Other subjects including initially management information, will be treated in the same way under the guidance of the Technical Officer appointed last year. District societies run their own discussion meetings and week-end courses from time to time. All these meetings serve a valuable purpose in giving members an opportunity to freshen their knowledge and experience.

The two new post-qualification certificates now being developed jointly with other bodies, the Certificate in Management Information and the Joint Diploma in Management Accounting Services, are to be warmly welcomed. They are good evidence of the growing recognition of the importance of management accounting and the many developments taking place in the field of data processing. The joint approach to the problem, exemplified particularly by the diploma scheme, is also to be most warmly welcomed. It is to be hoped that these schemes will succeed in encouraging the habit of systematic post-qualification study among a growing number of members.

'Development' work was largely centred on the Taxation and Research Committee and the Parliamentary and Law Committee until early in 1964. A separate Research Committee was then formed to select for research subjects thought to be not yet sufficiently developed to be suitable for the issue of a Council statement, to appoint authors and study groups, and to arrange for publication of the work where this is thought to be appropriate. Several such projects are now being prepared.

The name of the Taxation and Research Committee has been changed to the Technical Advisory Committee. It continues, with the Parliamentary and Law Committee, to execute an extensive range of tasks. Significant among these has been the preparation of the Institute's publications, notably the series of Recommendations on Accounting Principles, the Statements on Auditing, and some publications on both management and mechanized accounting. These publications cannot be said to have broken much new ground; indeed, it is perhaps unrealistic to expect innovation in the products of committees of this type. Those concerned with aspects of management accounting are pitched at an elementary level. Many of those concerned with aspects of professional practice are intended to assist in interpreting and enforcing known standards and conventions, already well accepted.

No official pronouncement has been made since 1952 on the knotty question of the instability of the currency unit, although in giving evidence to the recent Company Law Committee the Institute continued to support firmly a historic cost approach. That this is a long-standing problem to which so simple an answer is unsatisfactory is, of course, well evidenced. Nearly two hundred years ago Boswell wrote of Dr Johnson:

> 'He amused himself, I remember, by computing how much more expense was absolutely necessary to live upon the same scale with that which his friend described, when the value of money was diminished by the progress of commerce. It may be estimated that double the money might with difficulty be sufficient.'

When delivering the fifth Fawley Foundation Lecture in the University of Southampton in 1960 Sir Harry Pilkington said:

> 'In fact, many companies and many industries have for twenty years under-estimated their real costs, and even sold below them, by not allowing for the change in the value of money in one important part of their cost – the provision for depreciation and replacement. This is not entirely industry's fault. Two bodies who ought to have led, did not – the accountancy profession and the Government.'

The indictment is incomplete, but it serves to illustrate that in this and in other significant developments, particularly computers and operations research, the Institute is only beginning to give the firm lead that is demanded by its position as the major accounting body in England and Wales. Nor have the other bodies grasped their opportunity firmly. As Professor Solomons has said: 'There is remarkably little in modern costing which our fathers did not know about'.

If it is accepted that educational policy must be concerned with the development of knowledge, then the Institute's policy has been to that extent largely unsuccessful. It was suggested earlier that much more active support for, and development of, the existing contacts with the universities was needed in the pre-qualification training of the accountancy profession. In the work of post-qualification education a development of the co-operation between the profession and the academic world, exemplified by the publication in 1951 of the booklet *Some Accounting Terms and Concepts*, would surely be fruitful. The initiative for fostering these developments must lie largely with the profession.

CONCLUSION

In the short paper quoted earlier the Chairman of the Institute's Education Committee wrote:

> '. . . the Council must pay regard to the interests of its members, to the fact that they operate in a competitive world, to the success which members have achieved in professional, industrial and commercial life on the basis of the present methods of education and training, and to the fact that there are no present signs of any lessening of demand for members' services. In short, to what end should any changes be made? Educational considerations alone cannot determine that end.'

In this paper I have suggested an answer to this question. Mr Nelson's concern with helping to equip students to earn their living is placed alongside, perhaps amplified by, other objectives. They are all objectives with which education is concerned, in the attempt to help foster the development of the profession of accountancy and those engaged in it, not only for some 'educational consideration'. No thorough-going attempt to segregate each objective has been made because all are closely related and interdependent. Even so, it is clear that some are not now satisfactorily achieved.

The communication of the established body of knowledge is inefficiently carried out with at least 50 per cent of the students. With many of the remainder the narrow confines of the course of study can have done little to assist their intellectual development, to their detriment and their profession's. The development of the body of knowledge

has proceeded at only a pedestrian rate. It is further suggested that the several changes now being made in both the method and content of training will have to be taken much further to ensure that members will continue to achieve success in professional, industrial and commercial life, and that their services will not in future be demanded mainly for a limited range of fairly routine work. To the majority of members who, like myself, can anticipate at least another twenty-five years of professional life, international circumstances permitting, this is a crucial matter.

The claim has been made, with justification, that more has been done to develop the educational policy of the Institute in the last three years, than in at least the previous thirty. Further reform is being actively considered. The Institute is now engaging gear in its educational policy. Many more changes will have to be made before top gear is reached; there is no automatic transmission. There are notable advantages to be gained. Even Babbitt eventually decided that, despite his romantic attachment to the vicissitudes of his early life, the benefits of the more sophisticated standards which he later attained were to be preferred.

Meaning of Risk-yield

by D. C. BEATON, C.A.

IF someone puts money into a risky investment, he expects to receive a higher rate of return on his investment than if he had put his money into a risk-free investment, or rather an investment in which the degree of risk is reduced to a minimum. Since it is human to be optimistic, he will probably expect his risky investment to continue indefinitely to yield the high rate, the risk of loss although present being relatively small. In most instances, of course, no loss will be incurred, but if the assessment of the risk is realistic then over the broad field of investors, or of the investment, subject to the same particular risk, losses will occur proportionate to the assessed degree of risk.

Risk-yield an amalgam

It is common for the risk inherent in a particular investment to be displayed by the yield per cent to be expected from it. For example, if the yield per cent (net after taxation) to be expected from gilt-edged investment is 3 per cent, and the yield per cent of a particular investment outside the gilt-edged class is 5 per cent, then the excess of the 5 per cent rate over the 3 per cent rate is indicative of the degree of risk in the risky investment. Similarly in investment appraisal where by the discounted cash flow method a rate per cent is arrived at, that rate is indicative of the degree of risk, if the rate should be no more than what is regarded as the appropriate risk rate for the particular type of investment.

Where money is put into a safe investment, the yield per cent is in the nature of interest, that is to say, it is the return for the use of money. Where money is put into a risky investment the yield per cent is something more; it is an amalgam of a return for the use of money and a reward for risking the money in a venture. In a D.C.F. calculation the resulting compound rate of discount per cent which is applied to every annual amount of expected cash flow is more than the mere discounting necessary to allow for the fact that a sum of money receivable in a number of years hence is worth less than a sum of money immediately receivable. It is also the means of allowing for the fact that with risk there is a degree of uncertainty in the receipt of a future sum, and that the more remote the expected receipt, the greater is the degree of uncertainty.

It is, of course, extremely difficult to quantify risk because of the innumerable unknown future events which together sometimes conspire to bring about loss. However, the presence of difficulty is no excuse for making no attempt. A deliberate attempt to quantify risk is better than no attempt at all, because at least attention is focused on a problem which does exist, and which the passage of time aided by progress may help to solve. If certainty is expressed as unity then the degree of uncertainty, or rather of certainty, can be expressed arithmetically as a decimal. If there is a fifty-fifty chance, the degree of probability is ·5. Where the yield per cent of a risky investment is 5 per cent and that of a no-risk investment 3 per cent, what the difference of 2 per cent really represents is a measure of the uncertainty in the expected flow of receipts from the investment. Since the degree of risk increases theoretically as receipts become more remote, it could be said the degree of uncertainty of a receipt due one year hence is ·02, or the degree of certainty ·98. The degree of certainty of a receipt two years hence is $\cdot 98^2$, three years hence $\cdot 98^3$, and so on.

Element of super-return

Since the profit motive leads to the selection of the most profitable investment, when an investment is appraised by the D.C.F. method it is likely that the resulting rate of discount will often be more than what is regarded as the risk rate appropriate to the type of

investment, the latter being viewed as the minimum acceptable rate. For example, a rate of discount of 6 per cent resulting from a D.C.F. calculation might comprise three elements, broadly, 3 per cent representative of the time factor, 2 per cent representative of the appropriate risk factor and 1 per cent extra. This extra 1 per cent could be described as super-return consequent on the presence of expected favourable circumstances resulting in a higher rate of return than the normal appropriate to the degree of risk in the type of investment.

It is suggested that in investment appraisal calculations, there should be a separate stage for the assessment of risk, so that attention is focused upon the factor of risk. Management might consider that in a particular project, e.g. the introduction of a new product to the market, there was a higher than average degree of risk in the early years. This consideration could then be taken account of in the factor of risk used in the calculation for those years. It is suggested also that a D.C.F. investment appraisal calculation should throw up in the result the 'super-return', because surely this is the cogent factor in comparing alternative, possible, investments.

Illustration

The foregoing suggestions are illustrated below in a series of the simplest examples.

Let us assume a possible investment of £1,000 which is expected to produce receipts of £417, £338 and £365 at the end of years 1, 2 and 3, respectively. A D.C.F. calculation on the usual basis would result in a discount rate of 6 per cent compound per annum, which can be tabulated as follows:

Year		*Cash flow* £		*Discount factor at 6 per cent p.a. compound*	*Present value* £
0	..	Out	1,000		1,000
1	..	In	417	·943	393
2	..	In	338	·890	301
3	..	In	365	·840	306
			£1,120		£1,000

The uncertainty factor could be assumed to be ·02 a year, i.e. a certainty factor of ·98 a year. The certain equivalents of the amounts of cash flow would then be calculated as follows:

Year		*Cash flow* £		*Certainty factors*	*Certain equivalents* £
0	..	Out	1,000	1	1,000
1	..	In	417	·98	409
2	..	In	338	$·98^2=·960$	325
3	..	In	365	$·98^3=·941$	344
			£1,120		£1,078

The no-risk rate of interest could be assumed to be 3 per cent per annum and the present value of the above certain equivalents, to adjust to common values for the time factor, would be calculated as follows:

Year		*Certain equivalents* £		*Discount factor at 3 per cent p.a. compound*	*Present values* £
0	..	Out	1,000		1,000
1	..	In	409	·971	397
2	..	In	325	·943	306
3	..	In	344	·915	316
			£1,078	2·829	£1,019

(It may be noted in passing that at the compound rate of discount of 3 per cent per annum, £1,019 is the present value of an annuity of equal annual amount of £360·2, viz. £1,019÷2·829, the latter being the present value of an annuity of 1 for three years.) The present value of the 'super-return' on the investment of £1,000 is therefore £19 (£1,019−£1,000) which can be expressed as a yield of ·67 per cent per annum for three years on £1,000, £19 being the present value of an annuity of equal annual amount of £6·7 for three years at the compound rate of discount of 3 per cent per annum, £19÷2·829. (As a check on the calculation of £6·7, at the same rate of discount £1,000 is the present value of an annuity of equal annual amount for three years of £353·5, £1,000÷2·829.)

Alternative exposition

An alternative exposition of the above example is as follows, so as to show the annual income yield on the original investment and the return of the original investment of £1,000 at the end of the three years, as contrasting with the above example which shows annual cash flows comprising income and return of capital in each annual amount.

Year		*Cash flow* £	*Redemption of capital* £	*Remainder of cash flow* £	*Discount factor 3 per cent per annum compound*	*Present value of remainder* £
0	Out	1,000				
1	In	409	*323·5	85·5	·971	83·0
2	In	325	323·5	1·5	·943	1·4
3	In	344	323·5	20·5	·915	18·8
		£1,078	£970·5	£107·5	2·829	£103·2

Equivalent annuity of equal annual amount:

£103·2÷2·829=£36·5

Yield per cent on original capital:

£36·5×100÷£1,000=3·65%.

Whereof:

No-risk yield attributable to time factor 3%

'Super-return' yield .. .. ·65%

*Annuity of £323·5 for three years accumulates to £1,000 at compound rate of interest of 3 per cent per annum, $1{,}000\div3{\cdot}909\ (1+1{\cdot}03+1{\cdot}03^2)$.

Taxation Cases

A full report of the case summarized in these columns will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'.

Morrisons Holdings Limited *v.* C.I.R.

In the High Court of Justice (Chancery Division) – December 10th, 1965

(Before Mr Justice PENNYCUICK)

Surtax – Controlled company – Settlements with same first-named trustee – Settlor's children as beneficiaries – Discretionary settlements for members of family – Whether control by five or fewer persons – Whether settled shares can be held by public beneficially – Whether relatives to be treated as one person – Whether relatives to be included as members of the public – Meaning of 'the public' – Income Tax Act, 1952, section 256.

The appellant company's issued capital during the relevant period was £500,000 divided into 500,000 stock units of £1 each. In 1952, most of the stock was acquired by three brothers named Morrison, and they transferred part of it to the trustees of four settlements which they had made in 1950. These settlements were in favour of the children of the respective settlors. In 1954 each of the three brothers transferred further stock to the trustees of three other settlements made by them. Each of these settlements was in favour, at the discretion of the trustees, of members of a specified class consisting of members of the family, and any charity with other trusts in default. Mr Reginald Harrop, an accountant, was the first-named trustee of each of the four 1950 settlements. The first-named trustee of each of the 1954 settlements was one of the brothers of the settlor.

On April 5th, 1955, stock in the company, to the extent of 384,556 stock units, was held as follows: (i) the Morrison brothers, 153,018. (ii) R. Harrop (as first-named trustee of the 1950 settlements), 112,000. (iii) R. Harrop (personal holding), 14,538. (iv) R. Harrop (as first-named trustee of another settlement), nil. (v) the Morrison brothers and R. Harrop (trustees of the 1954 settlements), 105,000.

On April 5th, 1956, stock in the company, to the extent of 382,648 units, was held as follows: (i) the Morrison brothers, 153,018. (ii) R. Harrop (as first-named trustee of the 1950 settlements, 112,000. (iii) R. Harrop (personal holding), 3,630. (iv) the Morrison brothers and R. Harrop (trustees of the 1954 settlements), 105,000.

The Special Commissioners gave a direction under section 245 of the Income Tax Act, 1952, in respect of 1954–55 and 1955–56, and made consequential apportionments. The company appealed against the direction and apportionments.

It was contended for the company:

(i) (formally) that it was not under the control of not more than five persons;
(ii) that it was a company in which the public were substantially interested within section 256 of the Income Tax Act, 1952;
(iii) that stock in the company carrying not less than 25 per cent of the voting power was beneficially held by the public;
(iv) that the stock held for the three 1954 settlements was beneficially held by the public;
(v) that if stock held for any one of those settlements was held by the public, that supplied the 25 per cent above mentioned.

It was contended for the Revenue:

(i) (formally) that shares or stocks were 'acquired unconditionally by . . . the public' only if they were acquired in circumstances open to all and sundry by persons standing in no special relationship to the company or its controlling shareholders, and that therefore the company in this case was not one in which the public were substantially interested:
(ii) that members of a controlling group were not members of the public for this purpose;
(iii) that shares in which those persons held the voting rights were not held beneficially by the public;
(iv) that the controlling group in this case consisted of the three Morrison brothers and Mr Harrop, who between them could exercise the voting rights in respect of more than 380,000 stock units;
(v) that the beneficiaries under the 1950 and 1954 settlements were not members of the public and did not beneficially hold the settled stock;
(vi) that each holding of stock could not be treated as held by a single artificial person, but that regard had to be had to the identity of the trustees or the beneficiaries for this purpose;
(vii) that even if it were right to consider each trust holding as a single person, each such person in this case would be a member of the controlling group or closely connected therewith, and so not to be included in 'the public'.

The Special Commissioners decided:

(i) that members of a controlling group could not be members of the public within section 256 (5); and no combination of persons forming a controlling group not including the three Morrison brothers and Mr Harrop had been suggested;
(ii) that (as was admitted) the company could not succeed unless a batch of 35,000 stock units from one or other of the 1954 settlements could be said to be beneficially held by members of the public at the end of the relevant period, i.e. by persons other than the Morrison brothers and Mr Harrop, namely, the beneficiaries (or a class) in a 1954 settlement;
(iii) that if that were so, the same stock units would be used for two different purposes at the same time,

namely, by the trustees for control and by the beneficiaries as a substantial public interest, and that section 256 (5) did not permit of this duplication;

(iv) that the discretionary beneficiaries in the 1954 settlements did not hold beneficially any shares carrying voting power;

(v) that the specified class in each of the 1954 settlements was not a member of the public for the purposes of section 256 (5).

Held: (1) the Special Commissioners' decisions at (iv) and (v) above could not be supported, for what section 256 (5) required was that the stock carrying voting rights should be ascertained, and that then the public holding beneficially 25 per cent thereof should be identified; (2) the Morrison brothers and Mr Harrop were in control of the company within section 256 (2), in that they possessed or were entitled to acquire more than half the voting power; (3) the three Morrison brothers should be treated as a single person together with the trustees of the four 1950 settlements, so that not more than five persons controlled the company; (4) the beneficiaries in the 1954 settlements were not members of the public, because the public could not include relatives within section 256 (3).

Current Law

Ultra Vires Contract Unenforceable by Company

THE objects of the plaintiff company in *Bell Houses Ltd v. City Wall Properties Ltd* ([1965] 3 All E.R. 427) were '(*a*) to carry on the trade or business of general, civil and engineering contractors and in particular . . . to construct . . . either by the company or other parties . . . houses . . . either upon land acquired by the company or upon other land; (*b*) to acquire by purchase . . . any lands; (*c*) to carry on any other trade or business whatever which can, in the opinion of the board of directors, be advantageously carried on by the company in connection with or as ancillary to any of the above businesses or the general business of the company . . . ; (*d*) to do all such other things as are incidental or conducive to the above objects or any of them'.

The plaintiff claimed against the defendant company a procuration fee of £20,000, or damages in lieu thereof, alleging that the fee was due under a contract whereby the plaintiff introduced to the defendant a financier with whom the defendant was to enter into an agreement for the provision of a line of short-term credit for property development. The defendant pleaded that such a contract was *ultra vires* the plaintiff. While it has been long established that a company cannot be sued on a contract which it had no power to make, there was previously, it seems, no direct judicial authority for the proposition that a claim by a company can be defeated by a plea of *ultra vires*, and there was some disagreement between textbook writers on this point.

Mocatta, J., held, however, that the defence succeeded. The contract in question was not one within the plaintiff's objects, and it made no difference that the plaintiff had performed its part of the agreement.

Gift of Stamp Collection

THE testator in *Re Reynolds' Will Trusts, Dove and Others v. Reynolds and Others* ([1965] 3 All E.R. 686) gave to his sons 'personal chattels as defined by section 55 (1) (x) of the Administration of Estates Act, 1925', and gave his residuary estate upon trust for his grandchildren. The question arose whether the testator's stamp collection was included in the term 'personal chattels' or passed as part of his residuary estate.

It was in evidence that the testator had always shown a very active interest in his stamp collection and that it was his main hobby. In those circumstances, Stamp, J., found that the collection was an article of personal use and so passed under the gift of personal chattels. His lordship said, however, that if the testator had gone into the shop of a stamp dealer and bought a collection of stamps and installed it in his flat it could hardly be said that the collection so bought was an article of personal use. His lordship rejected an argument that the collection in the present case was an investment rather than an article of personal use.

Vesting of Trust Assets

THERE were four trustees, A., B., C. and D., of a settlement. D. was a patient whose affairs were controlled by the Court of Protection and the Official Solicitor had been appointed as her receiver. A. and B., without consulting C. and D., sought an order of the Court under section 51 of the Trustee Act, 1925, vesting the securities held on the trusts of the settlement in themselves and C. they did not ask for the removal of D. and the appointment of a new trustee in her place. They gave as their reason for seeking an order the impossibility of obtaining D.'s signature in matters affecting the settlement.

In *Re Harrison's Settlement Trusts, Morris and Another v. Harrison-Sleap and Others* ([1965] 3 All E.R. 795), Cross, J., said that there was no doubt that section 51 gave jurisdiction to make a vesting order vesting the assets of the settlement in A., B. and C. without either removing D. and appointing someone else in her place or simply removing her without appointing someone else in her place. The order sought was opposed by C. and by the Official Solicitor as receiver of D. The Official Solicitor's case was that he did not know what the position of D. would be if the order were made. Would she remain a trustee and be liable to be sued for breaches of trust? Would she be entitled to be consulted in connection with the exercise of discretions and so on? In those circumstances Cross, J., refused to make the order sought.

Finance and Commerce

Major change

A MAJOR change in plant depreciation policy is shown in the accounts of The Inveresk Paper Company Ltd from which this week's reprint is taken. In view of the rapid advances in technology now taking place in all sectors of industry, and the consequently greater risk of plant or processes becoming obsolete, it has been considered prudent in future to write off certain classes of plant more quickly than in the past.

All plant acquired before September 1954 has been written off completely at a cost of approximately £2 million from group reserves. Since the date in question there have been material advances in the design and operation of papermaking equipment. The write-off decision, Mr A. H. Bruce, the chairman, comments, 'places the group in a more realistic position for the future as all plant acquired prior to 1954 is now shown in the balance sheet at no value'.

This decision has been taken at a time when the company is in the throes of very considerable reorganization and redevelopment schemes. The end-year capital commitments indicate a rising level of capital spending and the chairman, in his review with the accounts, details a nine-point development plan.

Five years

To ensure at least part of its long-term supplies of wood-pulp, the company is entering into a joint venture agreement with the Riegel Paper Corporation of America to build a bleached kraft pulp mill near Baton Rouge in Louisiana with production anticipated early in 1968. This programme is expected to cost some $40 million, with the funds raised in the United States.

At home the company plans a £3 million coated paper development at Aberdeen, increased production of high

THE INVERESK PAPER COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the financial year ended 25th September, 1965

	Note	1965 £	1965 £	*1964* £	*1964* £
GROUP EXTERNAL SALES			27,046,568		*24,403,496*
GROUP PROFIT BEFORE TAXATION	1		2,034,447		*1,918,367*
Deduct: U.K. TAXATION	2		158,000		*717,500*
GROUP PROFIT AFTER TAXATION			1,876,447		*1,200,867*
Deduct: MINORITY INTERESTS IN SUBSIDIARY COMPANIES			6,687		*3,776*
GROUP PROFIT ATTRIBUTABLE TO THE INVERESK PAPER COMPANY LIMITED (of which £1,324,948 has been dealt with in the accounts of The Inveresk Paper Company Limited (*1964 £1,220,651*))			1,869,760		*1,197,091*
DIVIDENDS PAID AND PROPOSED (less Income Tax)					
6% Preference Stocks		89,466		*92,293*	
Ordinary Stock					
Interim 5d per Stock Unit (*1964 3.6d*)—paid		159,741		*119,910*	
Final 1s. 0d. per Stock Unit (*1964 1s 0d*)—proposed		383,384		*399,698*	
			632,591		*611,901*
GROUP PROFIT RETAINED			£1,237,169		*£585,190*
TRANSFER TO REVENUE GENERAL RESERVE			1,000,000		*606,711*
UNAPPROPRIATED PROFITS FOR THE YEAR					
The Inveresk Paper Company Limited		92,357		*2,039*	
Subsidiaries		144,812		*(23,560)*	
			237,169		*(21,521)*
			£1,237,169		*£585,190*

ANALYSIS OF ORDINARY STOCKHOLDERS AT 25th SEPTEMBER, 1965

	No. of Holders	*% of total Holders*	*No. of Stock Units*	*% of total Stock Units*
A. CLASS OF STOCKHOLDER				
Banks, Insurance Companies and Civic Corporations	194	1·3	1,355,738	10·4
Nominee Companies	183	1·2	2,193,381	16·8
Pension & Superannuation Funds, Charitable Institutions, Trustee Companies, Universities and Colleges	205	1·3	1,117,538	8·6
Investment Trusts, Unit Trusts and Other Institutions	236	1·6	1,724,375	13·2
Private Individuals	14,288	94·6	6,660,339	51·0
	15,106	100·0	13,051,371	100·0

	No. of holdings	*% of total Holders*	*No. of Stock Units*	*% of total Stock Units*
B. SIZE OF HOLDING				
500 stock units or less	11,525	76·3	2,779,886	21·3
501 to 2,000 stock units	2,980	19·7	3,053,232	23·4
2,001 to 5,000 stock units	363	2·4	1,210,903	9·3
5,001 to 10,000 stock units	97	·6	764,885	5·9
10,001 to 20,000 stock units	60	·4	888,720	6·8
20,001 to 50,000 stock units	55	·4	1,768,150	13·5
over 50,000 stock units	26	·2	2,585,595	19·8
	15,106	100·0	13,051,371	100·0

The notes on page [166] form part of these accounts.

quality art papers at other works, installation of new paper machinery at a main subsidiary's plant, new power plant and machinery at the New Northfleet Paper Mills, development of tissue output, development of the merchanting organization and a major public relations job on establishing the word 'Clan' as the linking theme for advertising, general sales policy and brand names.

The chairman admits that the disruption to the group's operations which will be caused by these developments 'is likely to have an adverse effect on profits for the next year or two'. The group plan, shareholders are reminded, shows what is considered to be a satisfactory growth rate 'but this occurs largely at the end of the five-year period'.

Balance

The balance between keeping a group such as this expanding in modern trim and keeping shareholders satisfied during the period of heavy capital spending is difficult to preserve. More particularly in this case, since the chairman refers to 'several projects which we are investigating but these are still not far enough advanced for me to disclose their nature'.

Of the group sales – with which the company opens its profit and loss account – 36 per cent was in coated paper, a similar amount in converted products, merchanting and board, and 28 per cent in other papers. Inveresk, it may be noted, still goes in for what used to be called 'cake cutting' and shows that of each £1 of group revenue, raw materials took 8*s* 9*d*; operating expenses and taxation 5*s* 5*d*; wages, salaries and pensions 4*s* 5*d*; retained profits 11*d*, and dividends 6*d*.

An analysis of shareholdings by 'class' shows that as many as 94·6 per cent of the ordinary shareholders are private individuals whose holdings account for 51 per cent of the total equity. The other holding percentages are banks, insurance companies and civic corporations, 10·4; nominee companies 16·8; pension and superannuation funds and charitable institutions 8·6; investment unit trusts 13·2.

Exception

A CHAIRMAN'S statement with the accounts has long since become the accepted rule but there are still exceptions to it. One is Bass, Mitchells & Butlers Ltd, the brewers, whose chairman, Mr H. Alan Walker, reserves his statement for the annual meeting.

His reason for doing so is that the meeting is always well

THE INVERESK PAPER COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 25th SEPTEMBER, 1965

	Note	1965 £ Authorised	1965 £ Issued Fully Paid and Converted into Stock	1964 £	1964 £
SHARE CAPITAL					
Capital of The Inveresk Paper Company Limited		10,000,000	9,037,068	*10,000,000*	*9,037,068*
CAPITAL RESERVE	3				
General			1,316,310		*2,650,489*
REVENUE RESERVES	3				
General		10,053,585		*9,857,360*	
Pensions		222,915		*222,915*	
Profit and Loss Account		635,494		*514,632*	
			10,911,994		*10,594,907*
SHARE CAPITAL AND RESERVES			21,265,372		*22,282,464*
MINORITY INTERESTS IN SUBSIDIARY COMPANIES			114,999		*105,201*
LOAN CAPITAL					
7 per cent Unsecured Loan Stock 1987/92			885,338		*885,338*
DEFERRED TAXATION					
Future Income Tax			—		*550,000*
Corporation Tax payable 1st January 1967			371,000		—
CURRENT LIABILITIES					
Creditors		1,729,037		*1,603,602*	
Taxation		522,873		*825,807*	
Preference and Ordinary Dividends		405,515		*422,771*	
			2,657,425		*2,852,180*
			£25,294,134		*£26,675,183*

	Note	1965 £	1965 £	1964 £	1964 £
FIXED ASSETS at book value	4				
Land and Buildings			4,267,370		*4,275,390*
Machinery and Plant	5		8,862,034		*10,869,426*
			13,129,404		*15,144,816*
CURRENT ASSETS					
Stocks		5,427,788		*5,289,920*	
Debtors		5,820,974		*4,708,154*	
Short Term Deposits, Bank Balances and Cash		915,968		*1,532,293*	
			12,164,730		*11,530,367*
			£25,294,134		*£26,675,183*

A. H. BRUCE }
R. MUNRO } DIRECTORS

The notes on page [166] form part of these accounts.

attended, particularly by managers of the group's public houses and hotels. Many of them travel a considerable distance to attend the meeting and Mr Walker does not consider it fair that they should go to a meeting only to have the business over and done with in five minutes flat.

Copies of his statement are posted to shareholders immediately after the meeting and it should be said that the directors' report with the accounts is reasonably full. Bass, Mitchells & Butlers is basically a Midlands organization, although growth has made it a national concern; even so it may be surprising to see that the annual meeting is held in London.

It seems that attendance may be reduced, however, as the company's shareholders received their accounts, and the notice of the annual meeting, on the same day that the National Union of Railwaymen called for a strike on the very date of the annual meeting – February 14th.

THE INVERESK PAPER COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES ON THE ACCOUNTS

1. GROUP PROFIT BEFORE TAXATION

	1965 £	*1964 £*
Is after taking the following items into account:		
Income		
Dividends from Trade Investments	—	*8,428*
Interest	65,494	*40,223*
Charges		
Depreciation	798,978	*772,823*
Interest on Loan Stock	61,974	*61,974*
Remuneration of the Company's Directors		
Fees	3,197	*3,559*
Other Emoluments	73,797	*68,744*

2. U.K. TAXATION

	1965 £	*1964 £*
Based on Profit for the Year.		
Profits Tax	—	*215,000*
Income Tax	—	*540,000*
Corporation Tax estimated at the rate of 35%	380,000	—
	380,000	*755,000*
Adjustment of Taxation in respect of previous years	(222,000)	*(37,500)*
	£158,000	*£717,500*

Investment Allowances have reduced taxation for the year by £140,000 (*1964 £184,000*).

Taxation deferred by the excess of capital allowances on machinery and plant over aggregate depreciation to 25th September 1965 amounts to £387,000 and has reduced taxation for the year by £165,000 (*1964 £71,000*)

3. MOVEMENTS ON RESERVES

	Group			Parent Company		
	Capital	*Revenue*		*Capital*	*Revenue*	
	General £	*General* £	*Profit & Loss Account* £	*General* £	*General* £	*Profit & Loss Account* £
Balance at 26th September 1964	2,650,489	9,857,360	514,632	2,091,504	4,900,000	203,864
Transfer from Profit and Loss Account	—	1,000,000	—	—	600,000	—
Surplus arising on sale of fixed assets	119,290	—	—	—	—	—
Unappropriated Profits for the year	—	—	237,169	—	—	92,357
	2,769,779	10,857,360	751,801	2,091,504	5,500,000	296,221
Less:						
Adjustment of depreciation of machinery and plant (see Note 5)	(1,431,473)	(675,410)	—	(241,904)	—	—
Exceptional losses on reorganisation of certain activities	(21,996)	(124,875)	(101,789)	—	—	—
Book loss on liquidation of subsidiary company	—	—	—	(11,221)	—	—
Balance of subsidiary company in course of liquidation	—	(3,490)	(14,518)	—	—	—
Balance at 25th September 1965	£1,316,310	£10,053,585	£635,494	£1,838,379	£5,500,000	£296,221

4. FIXED ASSETS

	Group		Parent Company	
	1965 £	*1964 £*	1965 £	*1964 £*
Land and Buildings				
At net book value at 30th September 1947 or subsequent cost	5,256,035	*5,187,578*	480,944	*487,950*
Depreciation since 30th September 1947	988,665	*912,188*	119,249	*112,853*
	£4,267,370	*£4,275,390*	£361,695	*£375,097*
Machinery and Plant				
At cost	17,753,910	*16,934,572*	1,518,996	*1,459,756*
Accumulated depreciation (see Note 5)	8,891,876	*6,065,146*	1,047,246	*763,420*
	£8,862,034	*£10,869,426*	£471,750	*£696,336*

5. FIXED ASSETS—DEPRECIATION OF MACHINERY AND PLANT

The Directors have decided:

(i) To introduce higher rates of depreciation for certain classes of machinery and plant acquired on or after 26th September 1965.

(ii) To write off at 25th September 1965 the outstanding book value of machinery and plant acquired on or before 30th September 1954 and to re-compute, from the dates of acquisition at the appropriate higher rates, the depreciation of machinery and plant acquired after that date. This has required the transfer from Capital and Revenue Reserves of the following amounts:

Group	£2,106,883
Parent Company	£241,904

The charge for Depreciation in the Consolidated Profit and Loss Account for the year ended 25th September 1965 has not been affected by these decisions.

6. SHARES IN SUBSIDIARY COMPANIES

Shares in the Subsidiary Companies are shown at cost with the exception of Bonus Shares issued by certain Subsidiaries which are included at nominal value and certain Subsidiaries' Ordinary Shares whose book value has been increased by the nominal value of the cancelled Preference Shares of those Companies.

7. COMMITMENTS

(i) Contracts outstanding for Capital Expenditure, in so far as they are not provided for in the Balance Sheets amounted to approximately:

	1965	*1964*
Group	£1,633,000	*£585,000*
Parent Company	£230,000	*£290,000*

(ii) The Parent Company has a contingent liability in respect of a Guarantee estimated at £94,000.

8. BASIS OF CONVERSION OF OVERSEAS CURRENCIES INTO STERLING

Australian Currency: £A125¼ to £100.

U.S.A. Currency: U.S. $2.80 to £1

CITY NOTES

NEITHER the Hull by-election result nor the further evidence of intensified pressure on industrial profit margins has proved a stalling point for the equity rise. True, the rise has tended to flatten out but the equity market remains technically strong and outwardly firm.

Support has come particularly on institutional account where there is a disposition to correct portfolios overweighted with industrial debentures and other fixed interest stocks towards the end of last year. If there seems no concern about the future trend of the equity market then there is, at least, concern in the City at the current trend of Government decisions affecting the economy and industry.

There is a growing view that the Government is bringing developments forward on too hurried a basis and for reasons which seem ill-considered. That Sir Paul Chambers, of Imperial Chemical Industries, should feel incensed enough to make known I.C.I.'s views on the Government's intended Industrial Reorganization Corporation was indicative of the present mood in industry and in the City.

There is, in fact, growing concern on points such as this and also on the absence of any indication of the public spending cuts that the Prime Minister is assumed to have forecast. Both the City and industry are becoming a little tired of too much politics.

* * * *

LORD ABERCONWAY, chairman of John Brown & Co Ltd, has directed fresh attention to the plight of the British shipbuilding industry. John Brown's shipyard at Clydebank is operating at a heavy loss and Lord Aberconway says that losses 'on the scale which present circumstances impose, are insupportable'. They have been supported to a degree by strong earnings in other parts of the John Brown organization but, with losses on major contracts for land boilers and for pipeline construction, the ability to carry shipyard losses is cramped. Overall group profits this year look like being down from £3·2 million to under £1 million. The John Brown directors have offered to put their Clydebank yard into a consortium scheme for new shipyard development but, while this may provide a long-term solution, the short-term problem remains acute and there is little early prospect of alleviation.

* * * *

THE prospect of equity dividends being included in Mr George Brown's 'early warning' system is not a particularly exciting one for the City and the stock-market – let alone for industry. The assumption that dividend restraint in this context will merely be a form of words introduced as a sop to the trade unions is a fair one, but until the form in which an early warning system would be applied is known, the question is a nagging one which will continue to make for potential investment discomfort.

* * * *

INGENUITY in the unit trust movement knows few bounds. The Municipal and General Securities Group has turned to the formation of the M. & G. Friendly Society as a new method of attracting funds. The introduction of M. & G. Family Bonds bids to be successful despite the restriction of assured benefits to £500 for any one person. The restriction of the equity element in the portfolio is unlikely to prove any major drawback to bonus potential.

Family Bonds are issued in multiples of fifty and at a price depending on the maturity date. Figures range from 13*s* 6*d* for ten years down to 8*s* 10*d* for twenty years. All bonds have an assured value of £1 on maturity but M. & G. forecast, conservatively, that the value of a ten-year bond will be 25*s* 6*d*. This represents a yield of 6½ per cent tax free.

RATES AND PRICES

Closing prices, Tuesday, February 1st, 1966

Tax Reserve Certificates: interest rate 28.11.64 3¼%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Nov. 26 ..	£5	7*s*	10·72*d*%	Dec. 31 ..	£5	10*s*	5·08*d*%
Dec. 3 ..	£5	7*s*	5·32*d*%	Jan. 7 ..	£5	10*s*	5·20*d*%
Dec. 10 ..	£5	9*s*	4·64*d*%	Jan. 14 ..	£5	9*s*	9·73*d*%
Dec. 17 ..	£5	10*s*	3·74*d*%	Jan. 21 ..	£5	9*s*	0·33*d*%
Dec. 23 ..	£5	10*s*	5·88*d*%	Jan. 28 ..	£5	9*s*	8·03*d*%

Money Rates

Day to day ..	4⅜–5⅛%	*Bank Bills*	
7 days	4¼–5½%	2 months ..	5⅞–5 $\frac{15}{16}$%
Fine Trade Bills		3 months ..	5⅞–5 $\frac{15}{16}$%
3 months ..	7–7½%	4 months ..	5⅞–5 $\frac{15}{16}$%
4 months ..	7–7½%	6 months ..	5⅞–5 $\frac{15}{16}$%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2·80 $\frac{11}{32}$	Frankfurt ..	11·25 $\frac{13}{16}$
Montreal ..	3·01 $\frac{5}{16}$	Milan	1752 $\frac{5}{16}$
Amsterdam ..	10·16 $\frac{1}{16}$	Oslo	20·02⅞
Brussels	139·39	Paris	13·74⅜
Copenhagen ..	19·32 $\frac{13}{16}$	Zürich	12·14 $\frac{3}{32}$

Gilt-edged

Consols 4% ..	60¼	Funding 6% 1993 ..	94 $\frac{5}{16}$
Consols 2½% ..	39	Savings 3% 60–70 ..	86 $\frac{3}{16}$
Conversion 3½% ..	54 $\frac{7}{16}$	Savings 3% 65–75 ..	75⅛
Conversion 5% 1971	94⅜	Treasury 6½% 1976	100½
Conversion 5¼% 1974	93½	Treasury 3½% 77–80	74⅞
Conversion 6% 1972	98 $\frac{13}{16}$	Treasury 3½% 79–81	72⅛
Funding 3½% 99–04	59 $\frac{5}{16}$	Treasury 5% 86–89	83½
Funding 4% 60–90	95	Treasury 5½% 08–12	84⅛xd
Funding 5¼% 78–80	89⅛	Treasury 2½% ..	39⅛
Funding 5½% 82–84	89¾	Victory 4%	96
Funding 5¾% 87–91	92¼	War Loan 3½% ..	53 $\frac{13}{16}$

Reviews

The City in the World Economy

by W. M. Clarke

Institute of Economic Affairs, London. 42*s*.

This extremely useful and readable book by the City editor of *The Times* deserves a welcome from all students of the financial scene, young and old alike. It falls into two main sections. The first is an up-to-date and extended treatment of the topics so well covered in the late Sir Oscar Hobson's little book on the City. This section will be especially valuable to accountancy students studying for the examination papers on general financial topics. For the more sophisticated reader with some understanding of economics, Part II is absorbing reading. In this section Mr Clarke considers the City's probable contribution to Britain's invisible receipts; the role of sterling in the world's monetary system and the more topical issues of increasing international liquidity, as well as a review of the City's role in the national economy. It is to be hoped that this excellent study will be kept up to date with further editions.

Econometric Analysis for National Economic Planning

Colston Paper No. 16, edited by P. E. Hart, G. Mills and J. K. Whitaker

Butterworth & Co (Publishers) Ltd, London. 72*s* 6*d* net.

This volume contains the eleven papers presented by experts from seven countries on the application of econometric techniques to national economic planning. The first four papers are British studies, including one by Professor Richard Stone, P. D. Leake Professor of Finance and Accounting, on the work which has been carried out at Cambridge on the new computable model of British economic growth which has interested the National Economic Development Council. Other studies relate to the United States, the Netherlands and France. The discussions following the papers are summarized.

This is essentially a work for the econometrician, although the accountant with a good mathematical training may judge for himself the validity of applying these new techniques to economic planning. While one may be sceptical concerning the reliability of many models, particularly where the basic data are limited, there can be no doubt that model-building constitutes the most important breakthrough in the development of economics since the Second World War.

Quantitative Controls for Business: an Introduction

by John T. O'Neil, Loring C. Farwell and F. Virgil Boyd

Richard D. Irwin Inc., Homewood, Illinois. $12.

This addition to the growing number of books in the Irwin series on accounting is a new member of the genus 'Introduction to Accounting'. Two features distinguish it from similar species, as the foreword indicates:

> 'It is the purpose of *Quantitative Controls for Business* to provide an integrated approach to the substantive procedures of accounting, statistics and financial management in such a way that the students' attention will always be focused upon the use of these procedures in reaching business decisions. In this book we undertake to accomplish this purpose through the use of cases drawn from actual business experience.'

Accounting is the backbone of this structure.

The book is essentially an introductory teaching manual. The text covers only 130 pages; the rest of the book consists of eighty-two case studies. Much of its value depends on the reader's opinion of the merit of case studies generally, and these cases in particular. Their standard naturally varies but some are very good and most are at least useful. They are generally well related to the text.

The subject-matter introduced can be summarized as follows: (i) the development and classification of data for various purposes; (ii) the main accounting statements – profit and loss account, balance sheet, funds statement; (iii) some basic book-keeping; (iv) ratio analysis; (v) control and standards: determining standards – measures of average, deviation, and dispersion; probability, including binomial distributions; variance analysis; (vi) cash flow measurement; cash budgeting; (vii) sales forecasting – moving averages; measuring trend, seasonal, cyclical, and random influences; (viii) decisions involving choice, e.g. make or buy, capital investment; the contribution approach; present values and discounting.

Inevitably a reviewer is tempted to try to make comparisons with other texts. R. N. Anthony's *Management Accounting: Text and Cases*, from the same publisher, has a similar approach, but is longer and more detailed. *Quantitative Controls* is nevertheless a useful introduction to accounting and might at least prove a mine of simple case study examples.

RECENT PUBLICATIONS

Moore's Practical Agreements, tenth edition, by Elaine E. Ware, LL.B., and A. R. Tyrrell, LL.B. xlii+444+50 pp. 9×5½. 57*s* 6*d* net. Messrs Butterworth & Co (Publishers) Ltd, London.

The Inland Revenue, by Sir Alexander Johnston, New Whitehall Series No. 13. 201 pp. 9×5½. 20*s* net. George Allen & Unwin Ltd, London.

Tables for Discounted Cash Flow, Annuity, Sinking Fund, Compound Interest and Annual Capital Charge Calculations with Explanatory Notes and Examples, by G. H. Lawson, M.A.(ECON.), A.A.C.C.A., and D. W. Windle, B.SC., PH.D. 102 pp. 9×5. 10*s* 6*d* net. Oliver & Boyd Ltd, Edinburgh.

Correspondence

Joint Diploma Scheme

SIR, – May I answer Mr Redman's questions published in your January 29th issue?

Honorary awards of the Joint Diploma were made to thirty-two gentlemen who have made particularly significant contributions to the advancement of the profession in various management accounting fields. In accepting the awards, these gentlemen have endorsed the purposes for which the Diploma was established and have set standards at which Diploma holders will aim.

The Joint Board does not now intend to make further honorary awards.

Yours faithfully,

I. G. S. GROUNDWATER,

Secretary,

London EC2. JOINT DIPLOMA BOARD.

Business Ratio Models

SIR, – I question the depreciation adjustment (to allow for currency debasement) suggested by Mr T. K. Mullin in his article on 'Business ratio models' (January 29th issue).

First, his 'current value index' figures seem too low, if based on the retail price index. For example, 1950's index ought to be 1·77 rather than 1·55; and similar increases are needed in the other years. [Based on June 1947=100, the 1950 index was 114·1; dividing by 153·4 to convert to January 1956=100, and by 117·5 to convert to January 1962=100 (the present base) gives a revised 1950 index of 63·3. Compared with the 1965 average of 112·1, this gives a ratio of 1·77.]

Second, Mr Mullin's method of dividing 'capital lost' by 38 (the age in years of the oldest asset) is dubious. If, in addition to the assets listed, an asset costing £1,000 in 1900 were still owned, by this method a total current value increased by about £5,000 would have to be divided by 65, producing a 'capital lost' amount per annum of only about 60 per cent as much as now. Surely one can calculate depreciation on historical cost adjusted for currency debasement just as on historical money cost. The difference between adjusted and conventional depreciation is then similar to Mr Mullin's 'excess capital lost – average per annum', but more accurate.

Third, it is not clear how conventional depreciation of £14,000 is calculated. Using the asset lives implied by accumulated conventional depreciation (and confirmed by elapsed life estimates), I reckon the 1965 conventional depreciation charge ought to have been £9,571. With my adjusted depreciation charge £23,221 (see my revised version of Mr Mullin's fixed asset valuation table (Fig. 2, £130) below), I make the increase of 'adjusted' over conventional depreciation, 143 per cent [£13,650/£9,571], rather than Mr Mullin's implied 65 per cent [£9,089/£14,000].

Fourth, should not the ratios use after-tax figures? Adjustments for currency debasement are not allowed for tax purposes (for, in effect, currency debasement is itself a tax), so their effect on after-tax profits is much greater than on before-tax profits. And if the 'return on assets' ratio is on *net* assets, i.e. after deducting current liabilities, then surely tax must be deducted from profits, since otherwise the bigger the tax charge the better the 'return on assets' ratio.

FIXED ASSET VALUATIONS (REVISED FIGURE 2)

Date of purchase	*Cost*	*Money value index*	*Cost in 1965 £s*	*Implied life of assets*	*Annual depreciation 'Reported'*	*Adjusted*
	£		£		£	£
1927	78,000	3·10	241,800	42·2	1,847	5,730
1931	46,000	3·46	159,160	42·5	1,082	3,745
1937	91,000	3·36	305,760	46·7	1,950	6,547
1950	77,000	1·77	136,290	30·0	2,567	4,543
1957	34,000	1·25	42,500	16·0	2,125	2,656
1965	39,000	1·00	39,000	?	—	—
	£365,000		£924,510		£9,571	£23,221

NOTES:

(1) Implied lives:

1927 38 years divided by 0·9=42·2
1931 34 „ „ „ 0·8=42·5
1937 28 „ „ „ 0·6=46·7
1950 15 „ „ „ 0·5=30·0
1957 8 „ „ „ 0·5=16·0

(2) 'Reported' depreciation ought, I think, to equal £14,000 in total, instead of the apparent total of £9,571.

Yours faithfully,

London W1. D. R. MYDDELTON, A.C.A.

Decisions in Business

LORD ROBENS ON THE ACCOUNTANT'S PART IN INDUSTRY TODAY

LORD ROBENS, chairman of the National Coal Board, spoke of the increasingly important part which would be played by accountants in decision-making in large industries, when he addressed the biennial dinner of the Nottingham Society of Chartered Accountants on Tuesday of last week.

Lord Robens, who was proposing the toast 'The Institute of Chartered Accountants in England and Wales , said that the objectives of the National Plan could not possibly be realized unless the policy-makers could rely on the guidance of skilled professionals – among them chartered accountants. That was why qualified accountants were now on some of the most important boards in the country.

In the old days, profit margins varied considerably because there was little competition. But times had changed since Britain was the 'workshop of the world', and this country was now in fierce competition with others. We had to meet the challenge of competition of firms from all over the world. We in Britain, he went on, had to look at our resources and face the grim fact that, unless we used those resources and our assets to the greatest possible extent, we should lose out in the great battle for the promotion of industrial efficiency and the securing of a fair share of world markets.

Need for business guidance

This was where the industrialist was compelled to look to the people who were able to give him the best guidance and advice as to where capital was to be invested. What was more, industry had to have the kind of man who was well aware of the problems associated with invested capital, but would move away from the security of certainty and who would, in fact, be prepared to take some business risks.

What they wanted was a quality of mind that could move away from the certainties, look at a number of differing methods of dealing with investments, and be prepared to say 'While this on the surface may not be exactly what you want, on balance this is a business risk which should be taken.'

If he were to give any advice to the younger people in the profession, it would be to remind them that they were no longer the people who merely recorded the transactions.

Britain could only succeed if it was willing to take some risks – not unnecessary risks, not foolish risks – but those which could be looked upon as 'bread and butter'. Business men looked to the accountancy profession for the guidance and advice on which risks should, and should not, be taken.

Lord Robens went on to pay tribute to the service which had been rendered in his own organization by chartered accountants who had made a 'tremendous contribution to the change-over and efficiency in the coal industry during the years he had been chairman'. And in years ahead, their accountant advisers would play a far more important part in the development of industry than most people realized at present.

Responding to the toast, the President of the Institute, Mr Robert McNeil, F.C.A., said that chartered accountants were now being trained to provide industry with the information and knowledge which it was entitled to receive.

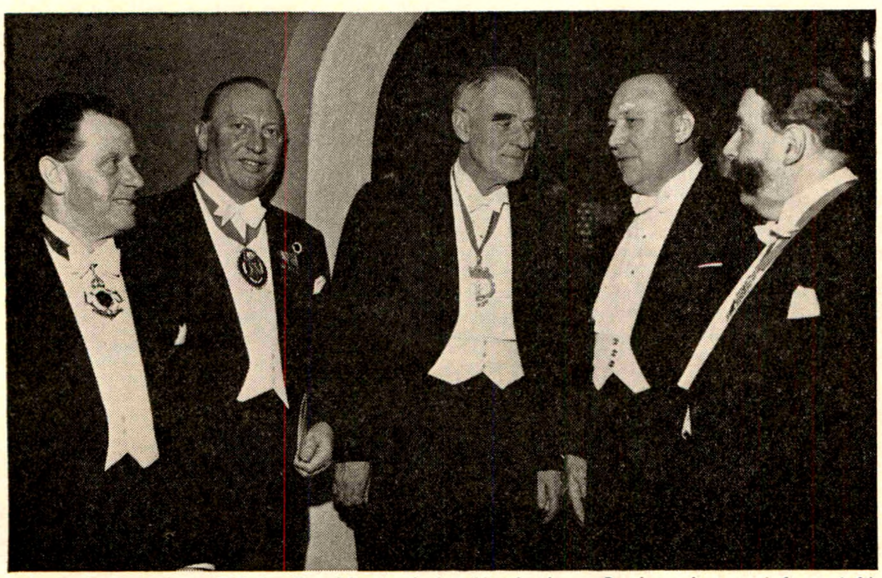
At the cross-roads

At the moment, their profession was standing at the cross-roads. What they decided now was going to have a tremendous impact, not only on their individual profession, but on the prosperity of the country and the happiness of the people.

Accountancy had travelled a long way from the time when an accountant dared to open his mouth at a Yorkshire board meeting, to be told by the chairman: 'Shut up, thee. Thou be nowt but scorer!'

The profession realized the opportunities of today. In the past, accountants had a reputation of great conservatism; but they were now growing away from this and becoming forward-looking. They were being given a wider and better training, and indeed were being provided with opportunities for re-training which in many respects would be a continuous process throughout their working lives.

But industry was becoming dependent on authorities. It was a pity there was no 'authority on authorities' that would help to guide them. In industry



Mr E. D. London, F.C.A., President of the Nottingham Society (*second from left*) with, to his right, the Sheriff of Nottingham, Councillor C. M. Reed, and to his left, Mr Robert McNeil, F.C.A., President of the Institute; Lord Robens, Chairman of the National Coal Board; and the Lord Mayor of Nottingham, Alderman W. Derbyshire.

in general, chartered accountants were told that when facing a problem they had to determine all the relevant facts; but there were times when determination of all the facts would make decisions of no value at all.

Chartered accountants must have a general standard of knowledge over a wide field. If they lost the ability to see how specialist training integrated into the complex of professional knowledge they would soon have a specialist who integrated into no business at all. Members should be trained to specialize in a number of fields.

The object of the Council was to assist members of the Institute to provide an ever-better service for their clients and, through them, for industry in general.

Mr T. K. Parr, a business man and magistrate, who proposed the toast of 'The Nottingham Society of Chartered Accountants', spoke of the 'immense amount of goodwill' surrounding the Society. More and more the country needed more and more chartered accountants, and yet with each succeeding year it was becoming harder and harder to succeed.

Theirs was an exacting profession, but he was sure that the sheer challenge of it all would always attract young men of the calibre it needed.

The Society's President, Mr E. D. London, F.C.A., replied to the toast, and on behalf of the Society made a presentation to Mr Paul F. Granger, F.C.A., who until his retirement had been a member of the Council for fifteen years and was President of the Institute four years ago.

The toast of 'The Guests' was proposed by Mr R. F. Prior, F.C.A., and Mr A. W. Condon responded.

A Forward-looking Profession

CHARTERED accountants had every reason to be proud of the position the Institute held, said Mr J. Colin Montgomery Williams, F.C.A., a Council member of the Institute, at the recent annual dinner and dance of the Bristol Area Branch of the Bristol and West of England Society of Chartered Accountants.

'I don't think the standing of chartered accountants has ever been higher,' said Mr Montgomery Williams. Certainly there had never been greater effort made to be of more efficient service to clients.

Every effort, he said, was also being made to see that younger members and students received adequate training to help them meet, with confidence, the growing demands made of them.

Mr Montgomery Williams said he knew the profession had been regarded as one that had lived in the past – 'there is certainly no trace of that now'. The services offered went far beyond audit reports and prospectus reports. As a whole the profession was more forward-looking than ever before.

They were learning – and using – new techniques, and efficient practitioners, in line with their colleagues in industry, were constantly endeavouring – and, he thought, succeeding – in assisting their clients in development of their businesses. He added that there was a new awareness in the profession, and members realized their responsibilities and potentialities.

The Council, too, was aware of its responsibilities. It fully realized that in these fast-moving days the question of education and training both of articled clerks and members had to be kept constantly under review. There had, he said, been plenty of evidence of that in the past year or two and there was a great deal more 'in the pipeline'.

Mr Montgomery Williams was replying to the toast to the Institute proposed by Mr T. Lloyd Robinson, Vice-Chairman of E. S. & A. Robinson (Holdings) Ltd.

The toast to the City and County of Bristol was proposed by the chairman of the Bristol area, Mr Frederick C. Smailes, F.C.A.

In his reply, the Lord Mayor of Bristol, Alderman Tom Martin, paid tribute to the work of successive medical officers of health. They had been progressive – years ahead of their time – and many of the things they had done, with their committees, had become national policy of the health service throughout the country.

Students' Tasks

LORD WADE OF HUDDERSFIELD, proposing the toast of 'The Chartered Accountant Students' Society of Leeds', at the Society's annual dinner at the Griffin Hotel, Leeds, on Friday of last week, said he regarded the accountancy profession with mingled feelings of respect and awe.

'When one looks at the number of subjects with which you have to become acquainted and the wide range of knowledge you acquire before you enter the profession, we mere outsiders are greatly impressed', he said. 'Certainly the task before a student must be very formidable. For example, in the very first year of your student's life you have learnt the difference between an asset and liability which still puzzles me, and you have found out why a balance sheet balances. That always puzzles me.'

Lord Wade, who was formerly Liberal M.P. for Huddersfield West, went on to say that the range of subjects covered by the student accountant was so wide that he sometimes wondered if there was any function left for a solicitor, still less for an expert on banking and high finance – not to mention those running businesses!

He said that he had been examining the Society's winter syllabus and had noted that a series of courses had now been established at the College of Commerce which were linked with the examinations. It was right, he felt, that students should be released from their offices for a specific period of time for these very important studies.

Similar responsibilities

Lord Wade, who is a solicitor, said that in some respects the legal and accountancy professions were similar – 'we both must have a proper sense of responsibility to our profession and our clients'. He added: 'I sometimes hear grumbles from clients who say "You know these accountants are much too friendly with the Inspector of Taxes". But it all depends on what you mean by "friendly" because it is in the interests of the profession and the client in the long run that the accountancy profession should maintain a high standard and disclose what

should be disclosed, although I know well that some clients have their own ideas of what should be disclosed and what should not be disclosed.'

The President of the Students' Society, Mr B. R. Cahill, F.C.A., said the activities of students' societies were a topical subject at the present time. They were under consideration in various quarters including the Institute.

So far as tuition was concerned, the Society, by way of experiment, had abolished conventional lectures as there was no point in competing with the College of Commerce; a series of one-day schools had therefore been arranged. The speakers were mainly members of the District Society with extensive practical experience and he appealed to students to support these one-day courses.

Mr D. M. B. Naylor, honorary secretary of the Students' Society, proposed the toast of 'The Guests', and the response was made by Mr F. T. Sobey, C.B.E., M.C., chairman of the Wool Textile Delegation. The Society, he said, numbered among its members potential leaders of industry who would in the future be of great assistance to the commercial life of the locality and perhaps the whole country. Commerce, he added, needed all the guidance it could get, for the next few years were likely to be extremely difficult for British industry. 'On your shoulders is going to fall a lot of responsibility. I hope you will take this responsibility for your own professional good and for the benefit of the country,' Mr Sobey declared.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS MARK BANUS & Co, of 4 Broad Street Place, London EC2, announce the retirement of their senior partner, Mr M. BANUS, F.A.C.C.A. The practice is being carried on by the remaining partners, Mr L. I. BRIEGAL, F.C.A., and Mr PETER LYNN, F.C.A., under the same name, and Mr BANUS continues to be available in a consultative capacity.

MESSRS BARTON, MAYHEW & Co announce the amalgamation of their practice in Mozambique with that of MESSRS HEMPHILL, ANDERSON & Co, under the name of BARTON MAYHEW, HEMPHILL ANDERSON & Co. The address of the firm is Rua da Gávea, 9, Lourenço Marques.

MESSRS NORMAN HUNT, HOWSE & Co, Chartered Accountants, announce their address is now 7 Cromwell Place, London SW7. Telephone Kensington 3605–6.

MESSRS ROBSON, MORROW & Co announce that their address is now St Alphage House, 2 Fore Street, London EC2. Telephone National 4951.

MESSRS J. & J. SAWYER & Co, Chartered Accountants, of 49 Bedford Row, London WC1, announce that Mr E. J. DRISCOLL, F.C.A., and Mr W. E. JOHNSON, F.C.A., retired as partners in the firm on January 31st, 1966, but will continue to be available as consultants. They also announce that as from that date Mr E. N. C. HEWENS, F.C.A., and Mr J. R. POWELL, F.C.A., who are partners of BUTLER, VINEY & CHILDS, with whom they are associated, have now become partners of J. & J. SAWYER & Co.

OBITUARY

Hugh Boyd, C.B.E., F.C.A.

It is with much regret that we record the death, on January 19th, of Mr Hugh Boyd, C.B.E., F.C.A., of Belfast, who was the oldest surviving past President of The Institute of Chartered Accountants in Ireland.

Mr Boyd was born on June 7th, 1882. He was admitted to the Institute in May 1906 and became Chairman of the Belfast Society of Chartered Accountants in 1920. He was a member of the Council of the Institute from November 1921 to November 1948, being Vice-President in 1933–34 and 1934–35 and President in 1935–36 and 1936–37.

In 1919 he was awarded the M.B.E. and in 1946 received the C.B.E. During the Second World War he was electricity controller and chairman of the Government's advisory committee on new industries.

Joint founder of the Belfast firm of Atkinson & Boyd, he was a partner from 1906 to 1959, when he became consultant to the firm. Two of the present partners are his sons, Mr A. Stanley Boyd, F.C.A., who is the Vice-President of the Institute this year, and his twin brother, Mr Hugh C. Boyd, who qualified at the same time as his brother.

Mr Boyd officially opened the new Institute Library in Dublin last October and gave members an interesting talk in which he recalled the early days of accountancy in Ireland.

IN PARLIAMENT

Corporation Tax: Directors' Remuneration

Mr BARNETT asked the Chancellor of the Exchequer what estimate he has made of the cost of removing the limit on directors' remuneration allowed as a deduction for corporation tax in the cast of close companies, and the cost if the limit were increased to £5,000 per annum for each director.

Mr MACDERMOT: No estimate has been made of the cost of removing the limit because it is impossible to forecase the effect upon the level of remuneration. The cost of increasing the limit of £5,000 for each director is estimated at something between £25 million and £30 million, for the first full year, depending on the rate of tax.

Hansard, Jan. 26th, 1966. Written answers, col. 80.

Income Tax and Capital Gains Tax: Employees' Emoluments

Sir A. MEYER asked the Chancellor of the Exchequer if he is aware that voluntary gifts of shares to workers in a company by a shareholder are liable to be taxed on the individuals under Schedule E as arising from their employment; and whether, in view of the desirability of greater participation

by workers in industry, he will exempt such gifts from income tax and exempt the donor from capital gains tax in respect of the disposal.

Mr MACDERMOT: The general rule is that employees are liable to income tax on all emoluments from their employment, whether voluntary or contractual. I see no reason to depart from this rule when the emoluments take the particular form of shares in a company, nor from exempting the donor from any liability to Capital Gains Tax that may arise in respect of his disposal of the shares.

Hansard, January 28th, 1965. Written answers, col. 146.

NATIONAL INSURANCE

Changes in Medical Certification

The Minister of Pensions and National Insurance has made regulations[1] simplifying the rules for medical certification for sickness and industrial injury benefits under the National Insurance and Industrial Injuries Acts.

The amending regulations, which came into effect on January 31st, give effect to two changes which will substantially reduce the 40 million medical certificates issued by doctors each year for sickness and injury benefit claims.

The first is that for short illnesses of up to seven days a doctor will need to issue only one certificate in future, covering the whole period of the illness, instead of a first and final certificate as at present. The second change concerns longer illnesses. If a doctor does not consider that his patient will be better within a period of seven days, he will be able to issue a certificate for a week or any longer period up to twenty-eight days during which he expects his patient to continue to be incapable of work.

A new all-purpose medical certificate for National Insurance purposes is introduced to replace the present 'First', 'Intermediate' and 'Final' certificates.

NEW BUSINESS NAMES

During the year ended December 31st, 1965, there were 48,266 new registrations under the Registration of Business Names Act, 1916 (as amended by the Companies Act, 1947), and 11,747 names were removed from the registers. The total remaining on the registers at December 31st, 1965, was 980,411.

[1] The National Insurance (Medical Certification) Amendment Regulations, 1966. S.I. 1966, No. 26. H.M.S.O. price *6d.*

NORTH-EAST BUSINESS EFFICIENCY EXHIBITION

Yorkshire's largest 'office' for five days in March will be at Queens Hall, Leeds, where over £3 million worth of modern business equipment will be displayed under one roof at the fifty-seventh national Business Efficiency Exhibition. Organized by the Business Equipment Trade Association, the exhibition will be officially opened by the Lord Mayor of Leeds, Alderman W. R. Hargrave, on Monday March 21st, and will end on Friday evening, March 25th.

Some sixty companies, their exhibits covering 32,000 square feet of stand space, will take part. A cross-section of the many products on view – some of them new models being shown for the first time publicly – will include computers, office printing and composing machines, calculators, accounting machines, dictating equipment, addressing machines, intercommunications systems, microfilm equipment, duplicators, photocopiers, and typewriters. Among non-machinery items will be desks, fire-resisting safes and files, and charting and planboard systems.

The exhibition will be open daily from 10 a.m. to 6 p.m. except on Thursday, March 24th, when it will remain open until 8 p.m. The last Business Efficiency Exhibition held in Leeds – in March 1962 – was attended by 13,600 visitors.

ACCOUNTANCY TEACHERS' CONFERENCE

A successful one-day conference held at the Liverpool College of Commerce last Saturday, under the joint auspices of The Institute of Cost and Works Accountants and the College, was attended by nearly sixty teachers of cost and management accountancy.

The first session, under the chairmanship of Mr R. J. H. McKenzie, F.C.A., F.C.W.A., President of the Liverpool and District Branch of the Institute, opened with a welcoming address by Mr T. Gore, M.A., B.SC.(ECON.), Barrister-at-law, Principal of the College. He was followed by Mr R. G. Highcock, LL.B., F.C.A., F.A.C.C.A., Vice-Principal of the College, who spoke on 'The teaching of accountancy', and whose practical approach, based on experience, was much appreciated by his teacher audience.

Next, Mr B. T. Hamnett, F.C.W.A., A.C.I.S., a member of the Education and Examination Committees of the Institute, gave a paper on 'Modern developments in management accounting'. Management today, he said, welcomed the best accounting techniques available and helped accountants to take part, with others, in employing a scientific approach in the solution of business problems.

The chair for the first two sessions of the afternoon was taken by Mr R. T. Rickers, F.C.W.A., a member of the Governing Body of the College and of the Institute's Education Committee. Dr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., F.C.I.S., Chairman of the Education Committee, and Mr R. Glendinning, M.A., C.A., F.C.W.A., Chairman of the Examination Committee, spoke on the educational and examination policies of the Institute, respectively.

The final session, under the chairmanship of Mr J. R. Nelson, M.SC.(ECON.), F.C.C.S., Head of the Department of Business Management at the College, took the form of an open discussion on topics arising out of the conference, and particularly the possibility of increasing liaison between teachers and the Institute. Discussion at all the sessions was lively and many points were raised on a wide range of subjects for the consideration of the Institute.

CERTIFIED ACCOUNTANTS' LUNCHEON MEETING

The next luncheon meeting for members of The Association of Certified and Corporate Accountants will take place at the Connaught Rooms, London WC2, on Tuesday, March 8th, at 12.30 for 1 p.m., when the guest speaker, the Rt Hon. Lord Hill, of Luton, Chairman, Independent Television Authority, will talk about 'Television'.

Further details may be obtained from Mr R. T. Bell, The Association of Certified and Corporate Accountants, 22 Bedford Square, London WC1.

NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS

The next monthly luncheon meeting of the Northern Society of Chartered Accountants will be held at the County Hotel, Neville Street, Newcastle upon Tyne, on Monday, March 14th.

It is hoped that a week-end residential course can be arranged for March

25th, 26th and 27th and members will be circularized in the near future.

The annual dinner of the Society's Cumberland Branch is to be held on March 18th at the Crown and Mitre, Carlisle.

CITY DISCUSSION GROUP

The next meeting of the Chartered Accountants' City Discussion Group will be held on Wednesday, February 9th, at the White Swan, Coleman Street, EC2, at 6 for 6.30 p.m., when the subject for discussion will be 'The proposed investment incentives arising from the recent White Paper'. Mr K. W. Lunn, F.C.A., taxation manager of the Dunlop Rubber Co Ltd, will open the discussion.

SOUTH-WEST LONDON DISCUSSION GROUP

The next meeting of members of the South-west London Discussion Group of Chartered Accountants will be held on Monday next, February 7th, at 6.45 p.m. at The Three Compasses Hotel, Eden Street, Kingston, Surrey, when the subject, 'Computers', will be introduced by Mr E. H. Masters, an engineer in charge of a systems engineering group.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 1 p.m. on Monday next, February 7th, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The Scripture for reading and thought will be Luke, Chapter 12, verses 15 to 21.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Lecture on 'Frauds'

The first lecture of the spring session will be delivered by Mr Frank L. Webb, F.C.A., on the subject of 'Frauds' at 5.45 p.m. next Thursday, February 10th, at The Little Ship Club, Bell Wharf Lane, Upper Thames Street, London EC4.

Debate

As usual, the debates during this session will be held on Wednesdays at 6 p.m. in the Students' Society Common Room at 43 London Wall, London EC2. The first will be held next Wednesday, February 9th, when the motion will be 'This House prefers capitalism to socialism'.

THE INSTITUTE OF INTERNAL AUDITORS

London Chapter's Four-day Course

The Education Committee of the London Chapter of The Institute of Internal Auditors recently concluded a series of four full-day sessions at Unilever House, London EC4, for members of the London Chapter and their senior assistants.

The sessions, conducted by experienced internal audit managers, were aimed at providing a wider appreciation of internal audit aims and objectives on practical subjects, including the control of stocks of materials and finished goods; buying; computer applications in accounting and control procedures; management information; freight, transport and vehicle operations; and internal audit responsibilities at times of major changes and developments in a business or organization. The average attendance at the morning and afternoon sessions was sixty-three, drawn from a large number of undertakings in the south of England.

The Education Committee will be planning another series to take place later this year and interested readers are invited to write to Mr R. A. Brown, Internal Audit Department, Unilever Ltd, Blackfriars, London EC4, for details when these are available.

Next Meeting

The next meeting of the London Chapter of The Institute of Internal Auditors will be held on Wednesday next, February 9th, at 12.30 p.m., at the Kingsley Hotel, Bloomsbury Way, London WC1. Mr John Perfect, F.C.A., will be giving a talk on 'The working relationship between the internal and external auditors'.

Birmingham Chapter

The next meeting of the Birmingham Chapter of The Institute of Internal Auditors will be held at 6.30 p.m. on Thursday next, February 10th, at the offices of Massey Ferguson (Manufacturing) Ltd, Banner Lane, Coventry. At this meeting a talk will be given by one of the Chapter members, Mr F. Bullock, on 'Some audit problems'.

Those interested in the Institute and who would care to attend will be most welcome. Further details of the Birmingham Chapter and the Institute in general can be obtained from the Chapter Secretary, Mr T. W. Scriven, West Midlands Gas Board, Wharf Lane, Solihull, Warwicks.

NEED FOR ECONOMIC CONTROLS IN GERMANY AND JAPAN

The urgent need to improve the current economic situation in the Federal Republic of Germany and Japan is stressed in two special surveys issued recently by the Organization for Economic Co-operation and Development (H.M.S.O. Price 5s each).

The report on Germany states that the money and capital market conditions have become tighter with rising interest rates and yet, on the other hand, the Federal Budget seems to have developed in an expansionary direction despite efforts to restrict the increase in expenditure. Part I of the report analyses recent trends in demand and output and the balance of payments indicating the main reasons for the persistent pressure on domestic resources, while Part II deals with developments in the credit and capital markets and assesses the adequacy of policy measures taken in these sectors. The prospects for 1966 are discussed in Part III, and the report concludes by stating that the authorities should make strong efforts with a tighter budget policy which would permit a relaxation of monetary restraints – 'the heavy reliance on monetary policy had probably aggravated the longer-term problem of enlarging the country's capital market'.

The current economic recession raises important problems both from the analytical and policy point of view, says the report on Japan. It discusses why monetary policies so successful in the past in controlling business fluctuations and the balance of payments have failed to bring about a recovery. Also, whether the present recession is the effect of a chance combination of circumstances or more deep-seated factors. In its conclusions, the report (which is in four parts) states that short-term economic analysis could be intensified – 'being undertaken on a continuation basis instead of once a year' – and recommends a substantial expansion of public expenditure financed by public borrowing as the most appropriate way of overcoming the recession.

The Institute of Municipal Treasurers and Accountants

Results of Examinations held in November 1965

Places and prizes have been awarded on the combined results of the May 1965 and November 1965 examinations. The places and prizes in the Final examination have been awarded on the combined results of both parts where the concluding part has been passed in either May 1965 or November 1965.

First Place and Prize of twenty-five guineas and the Arthur Collins Memorial Gold Medal
Parkes, John Alan, County Treasurer's Department, Derbyshire
(Passed Part B in May 1965 and Part A at a previous examination)

Second Place and Prize of fifteen guineas (incorporating the H. R. Ralph Prize)
Tomkins, Cyril Robert, Borough Treasurer's Department, Grimsby
(Passed Part A in November 1965 and Part B at a previous examination)

Third Place and Prize of ten guineas (incorporating the John Elliott Memorial Prize)
Allsop, Malcolm, County Treasurer's Department, Derbyshire. (Now County Treasurer's Department, Cheshire)
(Passed Part B in May 1965 and Part A at a previous examination)

Fourth Place and Prize of seven guineas (incorporating the G. A. Johnston (Dundee) Prize)
Cliff, Kenneth Stanley, County Treasurer's Department, Staffordshire
(Passed Part B in May 1965 and Part A at a previous examination)

Fifth Place and Prize of four guineas (incorporating the Allison Davies Prize)
Longden, George Howard, Deputy Treasurer, Southborough U.D.C.
(Passed Part B in May 1965 and Part A at a previous examination)

Awarded the 'Hospital Service' Prize of ten guineas for the highest marks of candidates from the hospital service
Stirland, Michael, Finance Department, Bedford Group H.M.C.
(Passed Part A in May 1965 and Part B at a previous examination)

FINAL PART A EXAMINATION

The following candidates have completed the Final examination:

Backhouse, J. E. R. E., Scarborough

Cass, J. R., Redbridge

Davidson, I. R., New Forest R.D.C.
Duncan, J. F., Somerset
Dunn, B. J., Barnet

Gaskell, P. S., Bridgwater
Gatiss, N., South Shields
Graham, B. S., Cumberland

Harding, B. D., Southampton

Latham, D. M., Essex
Leeson, R. V., Gloucestershire

Ogilvie, D. A. R., Manchester

Parr, S. J., Redbridge
Proctor, J. B. W., Essex
Pye, R. C., Denbighshire

Shapton, H. G., Leicestershire
Stanbank, E., Richmond-upon-Thames

Tomkins, C. R., Grimsby
Tucker, M. J., Glamorganshire

The following candidates have passed Part A of the Final examination only:

Allaway, G. W., Bedwas & Machen U.D.C.
Anderson, J. P., Manchester
Ashworth, D. M., Swansea

Barnes, R. L., Ipswich
Barston, K. W., St Helens
Bell, T. E., Durham
Bignell, R., Norwich
Blacoe, P. H., Birkenhead
Bloss, D. J., Haringey
Bolton, D. W., Buckinghamshire
Brown, D. C., Huyton with Roby U.D.C.

Cammies, P. R., Staffordshire
Cashen, J. A., Reading
Chown, P. J., Yeovil R.D.C.
Clay, J. B., Derbyshire
Cooke, B., Nottingham
Cragg, G. I., Southampton
Crompton, A., Wigan
Cunningham, J., Glasgow

Daniels, F., Derbyshire
Darlington, D., Rochdale
Davies, D. M., Cardiff
Davies, H., Pontypool U.D.C.
Davies, H. W., Dudley
Dean, D. J., Surrey
Dedman, K. F., Aylesbury
De Lacey, Miss S. J. M., Enfield
Desforges, M. J., Yorkshire (West Riding)
Dewhurst, K., Denton U.D.C.
Dixon, A. P., Lancashire
Dyster, R. J., Ministry of Housing and Local Government (Brighton)

Fawcett, H., Halifax
Fawcett, M., Derbyshire
Fellows, D. E., Crawley U.D.C.
Field, A., Herne Bay U.D.C.
Folwell, G. J., Leicestershire

Geeson, C., Normanton U.D.C.
Grant, T. M. A., Warwickshire
Greenwood, G. A., Stockport

Hale, D. E., Berkshire
Hall, D. L., Southampton
Hannam, J. F. H., Bournemouth
Hanson, P. D., Nottingham
Harwood, (Miss) K. J., Haringey
Hendry, R. A., Hastings
Hill, L. A., Croydon
Hopper, B. R., Rochester

Irving, A., Wigton R.D.C.

Kitchener, M. D., Haringey
Kivlin, T., Cheshire

Lambert, A. G., Roxburgh
Lane, T., Ministry of Housing and Local Government (Truro)
Laws, G., Newcastle upon Tyne
Leighton, O., Wellington U.D.C. (Salop)
Lock, G. A. B., Bridgwater
Logan, D., Coalville U.D.C.

Marsden, B., Salford
Marsden, B. H., Nottinghamshire

Marsh, T. D., Newcastle under Lyme
Marshall, P. W., Essex
Mason, R., Ministry of Housing and Local Government (Stafford)
McAninly, J., Wetherby R.D.C.
Merrick, C. S., Cardiff R.D.C.
Miller, G. A., Taunton
Milne, R. C., Westminster
Moss, A. A. W., Hoddesdon U.D.C.
Mouland, J. C., Brighton
Moxom, N. C., Bromley
Murfin, B., Tunbridge Wells
Murray, G. A., Widnes

Ogg, D. W., Sussex (East)
O'Riordan, B. R., Rowley Regis
Oxley, R. M., St Albans

Page, R., Huyton-with-Roby U.D.C.
Paine, R. M., Eastern Electricity Board
Palmer, J. S., Lewisham
Perry, B. F., Norwich
Phillips, P., Bedworth U.D.C.
Preece, A. R., Worcester

Rafferty, G. C. A., Bootle
Robinson, F. A., Lewisham
Robinson, M. J., Northumberland
Robinson, R. J., Hertfordshire
Rowley, T. D., Droitwich R.D.C.
Russell, R. C., Maidenhead

Shuker, R., Morecambe and Heysham
Smith, H. St J., Weston-super-Mare
Smith, M. M., Bradford

Stephens, M. G., Ministry of Housing and Local Government (Plymouth)
Stockmarr, A. D., Essex

Teasdale, T. V., Durham
Thomas, P. J., Reading
Thompson, R. G., Wolverhampton

Walker, J. A., Wrexham
Walmsley, G., Kensington and Chelsea
Wharton, C. E., Westmorland
Wheeler, D. W. P., Royal Western Counties H.M.C.
Woods, C. J., Basingstoke
Wright, P. A., Lincolnshire (Kesteven)

Young, D., Cumberland

FINAL PART B EXAMINATION

The following candidates have completed the Final examination:

Adolph, S. F., Hemel Hempstead
Anderton, R. A., Dukinfield
Atwell, W. B., Herefordshire Water Board

Banks, J. M., Ealing
Banbury, J. F., Ministry of Housing and Local Government (Newcastle)
Barraclough, J. H., Huddersfield
Batchelor, P. T., Hemel Hempstead
Batsford, A. D., West Bromwich
Bent, A. W., Worsley, U.D.C.
Brown, M. J., Leicestershire
Budd, R. E., Truro
Budd, R. H., Coventry
Bullock, D. A., Preston
Burrows, C. W., Taunton

Caines, A., Faringdon R.D.C.
Candler, R. W., Hampshire
Chenery, B. P., Bromley
Chilton, R. S., Mere & Tisbury R.D.C.
Collins, B. E., Bucks Water Board
Colston, D., Slough
Cooke, A. G., Hillingdon
Croly, T. A., Leamington Spa

Daymond, J. L., Portsmouth
Deane, P. A., Luton
Dear, M. J. M., Worthing
Dews, R. F., Southampton
Doyle, E., Kerrier R.D.C.
Dubber, P. M., North Derbyshire Water Board

Edmondson, D. A., Bradford

Faulkner, C. E., Carmarthenshire
Finan, R., Yorkshire (West Riding)

Gale, C. W., Exeter
Gomme, K. T., Gloucestershire
Goodship, P. T., Thurrock U.D.C.
Goodwin, T. F. R., Ellesmere Port
Gritty, C. L., St Albans

Hale, J. D., Dudley
Hateley, W., Stockton-on-Tees
Heckley, A., Ministry of Housing and Local Government (Darlington)
Hensby, J. N., St Albans
Hepworth, R., Morley
Hickey, G., Tynemouth
Hobbs, N. V. A., Nottingham
Holsey, J. W., Rotherham, R.D.C.
Hood, G. M., Rotherham
Hornsby, V. S., Ennerdale R.D.C.

Jelley, B. W., Lewisham

King, C. E., Ministry of Housing and Local Government (Doncaster)

Lancaster, E., Tynemouth
Latham, D. G., Devonshire
Leonard, C. W., Leicestershire
Line, F. J., Greater London Council
Lockwood, E., Redbridge

Martin, D. M., Coventry
Mear, D. R., Lusaka (Zambia)
Millward, C. A., Ministry of Housing and Local Government (Swansea)
Morrell, G., Corby U.D.C.
Morrison, H. S., Manchester
Morton, K. C., Lewisham

Nicholls, B. W., Kitwe (Zambia)
Nicholls, D. C., New Forest R.D.C.
Nippers, L. M., Rhondda

Pace, R. T., Egham U.D.C.
Partridge, J. M., Grimsby
Pither, E. G., New Windsor
Place, B. P., Baildon U.D.C.
Pycock, B. W., Lincolnshire (Holland)

Rance, S. F., Berkhamsted U.D.C.
Rayner, B. E., Lincoln
Reay, M., Stratford-upon-Avon
Reeve, D., Weston-super-Mare
Revell, B. H., Cambridgeshire and Isle of Ely
Roberts, J. M., Bradford

Saxton, F., Prestwich
Sharples, R., Lancashire
Shaw, G., Ministry of Housing and Local Government (Ormskirk)
Sketchley, D. A., Bingham R.D.C.
Smith, N., Chester
Smith, R., Dumfries
Southworth, J., Ministry of Housing and Local Government (Preston)

Tanner, B. M., Birmingham
Trott, R. J., Brighton
Twohig, B., Yorkshire (West Riding)

Velvick, A. W., Bromley

Wainwright, M. R., Leicestershire
Westlake, R. J., Cwmbran Development Corporation
Wilcox, J. D., Northleach R.D.C.
Wild, G. M., Bury
Wilkinson, M., Burnley
Wilson, E., Sutton
Wright, S. G., Cambridgeshire and Isle of Ely

The following candidates have passed Part B of the Final examination only:

Bearpark, D. R., Liverpool
Bubb, R., North Derbyshire Water Board
Booth, J. C., Havering

Garland, J. R., Hillingdon Group H.M.C.

Hutton, J., Coatbridge

Linsley, J. J. C., Romsey

Ridsdale, B., Lusaka (Zambia)
Riley, I. W., Nottingham

Samuel, J., Ealing
Smyly, E. J., Cheshire

Walker, R., Peterlee Development Corporation
Williams, P., Widnes

SUMMARY OF RESULTS

	Intermediate		*Final – Part A*		*Final – Part B*		*Total*	
	No.	%	*No.*	%	*No.*	%	*No.*	%
Passed	188	32	119	31	103	42	410	34
Failed	400	68	262	69	145	58	807	66
Total	588		381		248		1,217	

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ON OTHER PAGES

Disclosure in Accounts

THE new Companies Bill published last week is plainly an interim measure which deals mainly with only one facet of the recommendations of the Jenkins Committee, namely, greater disclosure of information, not only to shareholders but also to creditors, customers and the public generally. The accounts provisions will come into operation six months after the Bill reaches the Statute Book, which the Government hopes will be early in August. However, none of the new accounts requirements are to apply to accounts covering a financial year which ended before those requirements came into force. Seeing that they are unlikely to come into force before February 1967, it follows that accounts up to the end of 1966 will be unaffected. The privileges of absolute non-disclosure enjoyed by exempt private companies will be withdrawn also in February 1967, and thereafter accounts laid before the company will have to be filed for public inspection, even though covering periods before that date.

It has been a curious lacuna in the Companies Act, 1948, that a holding company did not have to disclose the identities of its subsidiaries. Now the company will have to show each subsidiary's name, the country of its incorporation, and the proportion of each class of the subsidiary's share capital which the holding company holds. Holdings through intermediate subsidiaries are covered. There is an escape clause in the case of overseas subsidiaries where disclosure would be harmful. Where the subsidiaries are numerous, minor ones can be left out.

Similar requirements apply where the reporting company holds as much as one-tenth of a class of shares of another company. If as much as one-tenth of the assets of the reporting company is represented by shares which it holds in another company, then a like disclosure must be made about that other company. Moreover there is no escape clause on the grounds of numbers because, of course, the number cannot exceed ten.

A subsidiary will have to disclose who is its ultimate holding company, or at any rate the name of the company whom the directors think to be the ultimate holding company. They must also show (if they know it) the country in which the ultimate holding company is incorporated. This information can be withheld with the consent of the Board of Trade if the directors think it would be harmful to any of the companies in the group.

Section 196 of the Companies Act, 1948, already requires the disclosure in accounts of the aggregate directors' emoluments, as there defined. Clause 6 of the Bill imposes additional obligations.

The accounts must now show the individual emoluments of the chairman. If the chairman has emoluments as an ordinary director of the reporting company, or as director of any subsidiary, or otherwise in connection with the management of the affairs of the company or its subsidiaries, then those emoluments must be shown.

What is a chairman? It means the person elected by the directors to be chairman of their meetings, i.e. board meetings. If any office of the company carries functions 'substantially similar to those discharged by a person so elected' he is chairman, whatever the articles may call him.

As regards the other directors, the company must show how many of them had no emoluments, how many were in the bracket of nil to £2,500, how many in the next £2,500 bracket, and so on. This goes far beyond anything recommended by the Jenkins Committee; indeed that Committee thought that companies who were deprived of their exempt status by the new law should still be able to conceal the aggregate remuneration paid to their directors.

It is commonplace now for a director to take a handsome long-term service agreement but to waive his remuneration for the time being. This can be misleading when the accounts are published and show a reduced charge for aggregate emoluments. Clause 7 of the Bill requires information as to the number of directors who have waived emoluments and the aggregate amount of the waiver.

Perhaps the part of the Companies Act, 1948, most familiar to accountants is Schedule 8 with its detailed requirements as to what the accounts are to show. Schedule I to the Bill amends Schedule 8 in a great many ways. Happily, Schedule 2 of the Bill sets out the old Schedule 8 as amended, the amendments being shown in bold type.

Where there are redeemable preference shares, the accounts must show the earliest and latest dates when the company has power to redeem; whether the redemption is only at the option of the company or compulsory, and any premium. The balance sheet must separately identify assets which are neither current nor fixed.

Unquoted investments of the company come in for scrutiny, both in the balance sheet section and the profit and loss account section of the amended Schedule 8. If they consist of equity share capital then in general the income from them must appear, and also the reporting company's share of the income accruing to the unquoted company, after taxation; likewise the reporting company's share of the net aggregate amount of the undistributed profits accumulated by the unquoted companies, since the time when the investment was first held. If the unquoted companies have had losses, the accounts of the reporting companies must show how these losses have been dealt with.

The dichotomy between capital reserves and revenue reserves is to go; the vague border between provisions and reserves remains. If an amount is 'set aside' for the purpose of its being used to prevent undue fluctuations in charges for taxation, it is to be stated. The requirement to show under separate headings, trade investments, and quoted and unquoted non-trade investments, is altered so as to discontinue the separate showing of trade investments. The requirement as to bank loans and overdrafts is extended to other loans to the company being loans not repayable within five years. The dividend recommendation is to be shown gross of income tax. To capital expenditure contracted for, a statement of further capital expenditure already authorized by the directors is to be added.

More information is required to be shown in or with the balance sheet about fixed assets. If assets are shown at a valuation, the year of valuation has to appear. Even without this requirement it would seem difficult to justify an 'at valuation' figure if the valuation was in fact made years ago. One would naturally assume that the valuation was made as at the balance sheet date. Where there is land, it is to be shown in three categories, freehold, long leases (roughly fifty years and more), and short leases. The balance sheet must have a tabulated statement for the four preceding years showing the issued and paid-up capital and the reserves.

To the items mentioned in paragraph 12 of Schedule 8 there are to be added the charge for corporation tax, the income from quoted and unquoted investments shown separately, rents from land (if substantial), and sums paid in rent for land or plant hire. If renewals are charged and the same assets depreciated, the renewal item must be shown separately. Depreciation computed on a figure different from the one used for balance sheet purposes is to be distinguished.

An item of major importance is the new paragraph 13 (*a*) to Schedule 8 which requires turnover to be stated, and also the method by which it is arrived at. There are exceptions for banking and discount companies, and other cases to be prescribed by the Board of Trade. This new requirement produces a corresponding amendment to Part II of Schedule 8, which contains the special provisions relating to holding and subsidiary companies. A new sub-paragraph (7) to paragraph 15, dealing with a holding company, requires the turnover to be split up between intra-group trading and other trading. A new paragraph 16 imposes a similar obligation on a subsidiary. These requirements are modified by a new paragraph 20 (*a*) in the case of consolidated accounts.

A welcome innovation is in the new paragraph 14 (*a*) which provides for a tabulated statement of past profits,

losses, dividends and turnover covering four preceding years. Disclosure does not stop at accounts. The new Bill requires a much more informative directors' report. It must show the names of the directors as at the end of the year, and the principal activities of the company and of its subsidiaries during the year, with significant changes in those activities. Clause 14 also requires the following:

(a) Fixed assets

Particulars of significant changes (including any subsidiary's fixed assets). If the market value differs substantially from the book value and the directors think it of such significance as to require the attention of the members, then they must draw attention to it.

(b) Share and debenture issues

The reason for the issue, particulars of the classes of shares, etc., and the amount raised on each.

(c) Management contract

Particulars of any contract under which a non-director manages the company and in which a director is interested.

(d) Other material matters

Any other matters material to the appreciation of the state of the company's affairs must be shown unless the disclosure would harm the company or its subsidiary.

If the company carried on two or more classes of business during the year, differing substantially from each other, the directors' report must apportion the turnover between them and indicate the contribution of each class to the profit (or loss). Tucked away in clause 16 is a requirement that the directors' report shows money contributions by the company 'for political purposes'. The report must identify the political parties for whose benefit the money was given. More important is clause 17 which requires the report to include information about exports where the company deals in goods and the turnover exceeds £20,000. The report must show the value of goods exported.

Auditors and the New Bill

The complex accounts provisions, and the advice which directors are bound to seek about their new responsibilities in relation to the directors' report, will place heavy burdens on the accountancy profession. Where the breakdown of directors' remuneration is not given, clause 6 (3) requires the auditor to give the required information in his report if he has it. The qualifications for appointment as auditor are extensively altered by clause 11.

The proviso to section 161 (1) of the 1948 Act permitted unqualified auditors for exempt private companies. That proviso departs with exempt private companies themselves. However, a person who is already auditor of an exempt private company when the repeal takes effect, will not be disqualified for a further twelve months.

In place of the exempt private company, clause 11 creates a new class of company for which the qualifications of the auditor are less exacting. This is a company of which it can be said at the time of the auditor's appointment that none of its shares or debentures (or those of its subsidiary) have been quoted on any stock exchange or offered for public subscription. For appointment by such a company the Board of Trade can authorize a person satisfying the following conditions, instead of those imposed by section 161 (1):

(i) throughout the twelve months ended February 2nd, 1966, he has been wholly or mainly occupied in practising as an accountant on his own account (or in partnership); and

(ii) on February 2nd, 1966, he was the duly appointed auditor of a company which was on that date an exempt private company.

On the other hand, the Board of Trade will not be able, after clause 11 comes into operation, to authorize any person to be an auditor merely because he was in practice as an accountant before August 6th, 1947.

Section 161 (2) *(b)* of the 1948 Act disqualifies a person who is a partner of (or employed by) an officer or servant of the company. Clause 11 (3) qualifies this for the period of three years following the coming into operation of clause 11 (3) where the person was a duly appointed auditor of the company immediately before his re-appointment. This is necessary because section 161 (2) did not apply to exempt private companies.

Clause 12 contains extensive new provisions about the auditor's duties and the form of his report; section 162 and Schedule 9 to the 1948 Act are repealed. The auditor must say, *inter alia*, whether the accounts 'have been properly prepared in accordance' with the Act. He must carry out such investigations as will enable him to form an opinion as to whether proper books of account have been kept and as to whether the accounts agree with the books.

Audit Report Qualifications

THE artist WHISTLER, on a celebrated occasion, said that the high price asked for one of his pictures represented not the few hours taken to paint it but the experience of a lifetime. A similar justification could be put forward for an auditor's report which, although not a work of art or even of literature, does imply the possession and execution of a specialized skill and judgement acquired, usually, over a long period. Here, however, the pleasing comparison ends. The artist strives continually to attain a distinctive style and is free to find and exploit it within the almost endless limits of human taste and appreciation. The auditor, on the other hand, is bound by the prosaic requirements of the Ninth Schedule of the 1948 Companies Act. Almost the only time he can break away from its rigid conventions is when he is constrained to qualify his report.

This kind of freedom, however, is not appreciated by the auditor who like all civilized and intelligent people prefers a state of order to one of irregularity, particularly in the affairs of his clients. It is with reluctance and only when events or circumstances warrant it that he brings himself to depart from his orthodox form of statement. When he does so, he is sometimes momentarily at a loss as to how he should express himself so as neither to over-emphasize nor to minimize the importance of the qualification. Little on these matters is to be found in the textbooks and so the latest Statement on Auditing, one of a series currently being issued by the Council of The Institute of Chartered Accountants in England and Wales, entitled *Qualifications in Auditors' Reports* and reproduced elsewhere in this issue, will be welcomed by all practising accountants. The value of the statement lies not only in the practical examples it gives but in the general consideration of the principles involved when such reservations have to be made.

The first thing the auditor has to do when, in the course of his audit, he comes across a situation which he thinks might be sufficiently serious to necessitate qualifying his report, is to discuss the matter fully and frankly with the company's management. If this does not resolve the problem, the auditor has then to decide how the situation affects the accuracy of the accounts as a whole. If the point at issue is not sufficiently large to distort the overall picture, then he can say that subject to . . . mentioning the circumstances . . . the accounts in his opinion show a true and fair view. If, however, the effect of the point at issue on the accounts as a whole cannot be estimated by the auditor, then he must report that he is unable to say whether or not, in the light of this special situation, the accounts in his opinion present a true and fair view. Finally, if the point at issue definitely affects the verity of the accounts, then the auditor must state unequivocally that they do not in his opinion present a true and fair view and give his reasons why.

All three are serious steps to take and the qualification, whatever its degree, must be carefully worded. It is the duty of the auditor, the Statement points out, to convey information and not merely to arouse inquiry. Accordingly, the qualification must be expressed concisely, must be specific as to facts and, where possible, amounts and must reflect the auditor's opinions, within the stated limits of the information available to him, without ambiguity.

Another important factor always to be remembered is that a qualified report does not necessarily impugn the directors' financial integrity. There may well be times when a company's management and the auditor disagree honestly but fundamentally on, say, stock or asset valuations. When such differences of opinion cannot be reconciled, it is the duty of the auditor to uphold his own judgement and report to the shareholders accordingly but always keeping in mind that the directors, who are also answerable to the shareholders, are equally entitled to their views. He must not, therefore, phrase his qualification in other than completely objective terms. It is for the shareholders to make the final decision, if one is called for.

Within the last year or two, there have been several cases where auditors have been in conflict with the boards of client companies to the extent that matters reached the national newspaper headlines. It would seem that in each of these the directors, or at least one of them, were primarily at fault but that in two instances at least, the auditors did not protest early or loudly enough at the lack of information available because they were overawed by the personalities of some of the directors concerned. Consequently, their negative reports came too late to be fully effective. This latest statement from the Council of the Institute should be a shot in the arm for timid auditors.

Current Affairs

Institute's Final Examinations

IN the November 1965 examinations of The Institute of Chartered Accountants in England and Wales, 2,302 candidates sat for the Final examination (old syllabus), of whom 1,094 passed and 1,208 failed.

The First Place in Order of Merit, the Institute Prize, the W. B. Peat Medal and Prize, the O. C. Railton Prize for the year 1965, and the Plender Prize for the paper on General Financial Knowledge, Cost and Management Accounting were won by Mr A. F. Lamb, of Newcastle upon Tyne. The Second Place in Order of Merit, the Walter Knox Scholarship and the Plender Prize for the Paper on English Law II were won by Mr N. A. Eastaway, of London, and the Third Place in Order of Merit, the Plender Prize (equal with one other) for the paper on Taxation and the Plender Prize for the paper on English Law I were won by Mr M. F. Tarrant, also of London.

In the various parts of the Final examination (new syllabus) there were 1,699 candidates, of whom 843 passed, and 856 failed. First Place in Order of Merit, the Robert Fletcher Prize, the Roger N. Carter Prize and the Deloitte-Plender Prize for the paper on Taxation I were won by Mr R. G. Best, of Yeovil. The Second Place in Order of Merit, the Walter Knox Scholarship and the Deloitte-Plender Prize for the paper on English Law II were won by Mr R. I. W. Boyd, of London, and the Third Place in Order of Merit, the O. C. Railton Prize and the Deloitte-Plender Prize for the paper on English Law I were won by Mr A. V. Towers, of Oxford.

A full list of successful candidates and a summary of the complete results are published as a supplement to this issue.

Institute Council Resignation

THE resignation of Mr R. P. Winter, C.B.E., M.C., T.D., D.L., F.C.A., from the Council of The Institute of Chartered Accountants in England and Wales was received with much regret at a meeting of the Council held on February 2nd (reported elsewhere in this issue).

Mr Winter, who is senior partner in the firm of Winter, Robinson, Sisson & Benson, of Newcastle upon Tyne, was President of the Institute in 1963–64 and Vice-President in the preceding year. Elected to the Council in April 1952, he served as Chairman of the Applications Committee from 1959 to 1962 (previously being Vice-Chairman for three years) and for two years was Chairman of the General Purposes Committee on which he had served since 1957. He was also a member for many years of the District Societies Committee, Disciplinary Committee and Library Committee.

Mr Winter has many interests in the City of Newcastle and is connected with a number of charities. He was appointed a Deputy-Lieutenant of the County of Northumberland in 1953 and a Justice of the Peace of the City and County of Newcastle in 1948. He became a C.B.E. in 1958 for services to the Northumberland Territorial and Auxiliary Forces Association and other work for the county.

Admitted to membership of the Institute in 1921, Mr Winter has been an active member of the Northern Society of Chartered Accountants over a long period, being President of the Society in 1940–42 and again in 1951.

Sage Advice

THE Chancellor of the Exchequer and the Inland Revenue would do well to consider carefully the advice which they have received from the Council of The Institute of Chartered Accountants of Scotland. This is contained in memoranda on the next Finance Bill and on some weaknesses in the Finance Act, 1965, reproduced on other pages of this issue. The studied moderation of the language of these memoranda is in sharp contrast to the shortcomings of the legislation they criticize.

The need for a complete re-examination of anti-avoidance legislation has become even sharper since last year's Finance Act but the recommendations of the Royal Commission seem to have been ignored by the powers that be. On top of this are the appalling complexities of language and the habit of the Inland Revenue of announcing *ex cathedra* how they are going to interpret it. The Council of the Scottish Institute reiterate the arguments for depreciation allowances on commercial buildings, for a less rigid application of the new business provisions in relation to expenses following a change of ownership, the allowance of subvention payments made after the receiving trade has

ceased, and deductions for contributions to educational projects. The recent decision that moneys embezzled by a rent collector are not management expenses ought to be reversed by legislation.

The definition of 'close company' is now so widely drawn that auditors may well be unaware that a company is a close one. How can they know whether 'associates' of directors are interested in the share capital? The continuance option for partnership changes still has to be exercised within twelve months, which is far too early for the taxpayer to know its effect.

Among the detailed criticisms of the Finance Act, 1965, in the second memorandum are the anomalies and uncertainties produced by section 25 dealing with settlements in relation to capital gains tax. The family business exemption in section 34 is confined to taxpayers who owned their shares for ten years. It does not deal with the case where for the early part of the ten years the individual was a proprietor and then sold the business to a company. As to computing a capital gain, Schedule 6 allows deductions for improvements and for incidental expenses of purchase and sale. But it does not allow any deduction for fees paid for the keeping of the fantastically complicated records which will be necessary now as long as an asset exists. The Council rightly emphasizes that the provisions about quoted shares and part disposals are in urgent need of simplification.

The memorandum winds up with pointing out some technical shortcomings of the corporation tax legislation. The draftsman of section 48 (7) seems to have overlooked the fact that although a subsidiary would not normally own shares in its parent, it could well be a loan creditor and receive interest from the parent.

More Pre-Budget Representations

THE Confederation of British Industry in its Budget memorandum to the Chancellor is critical of the cash grant incentives. The C.B.I. 'regrets' the introduction of the scheme, contrary to the preference of industry as indicated in the Confederation's survey of the investment allowance position.

The new system, the C.B.I. considers, 'falls far short of restoring the value of the incentives to what it was before the introduction of corporation tax'. On other points, the Confederation urges the Chancellor to keep corporation tax down to 35 per cent and recommends a minimum limit at which gains tax becomes applicable on transactions in securities.

The T.U.C. has suggested to the Chancellor that if he cannot lower the general income tax payments of those with low earnings, he might at least take a benevolent look at the case for granting tax relief to single people who care for aged parents and relatives. The T.U.C. has pointed out that widows and widowers can get tax relief to cover the cost of employing a housekeeper or nurse to look after their young children. But despite the fact that it costs just as much to look after the aged and infirm at home, no tax relief is available.

Such a concession would cost little, the T.U.C. states, and would be an instalment of social justice. The present allowance for a person with dependent children is £75 a year. On average this relief would work out at a tax concession of about 10*s* a week – a fraction of what it costs the State to care for the aged and infirm in a geriatric ward of a hospital.

The Wider Share Ownership Council in a memorandum to the Chancellor recommends that to encourage savings, the first £50 of investment income should be exempt from capital gains tax; and that corporation tax should not exceed 35 per cent as any higher rate 'would inhibit the payment of dividends at a level necessary to encourage the small saver to invest in British industry'.

The Council also urges that securities should be tax-exempted on disposal, where considerations do not exceed £1,000 in any one year, or if this is impracticable exemption should be granted on the first £500 of gains. Realized gains of unit and investment trusts, the administrative complexities and expenses of which are 'quite disproportionate to the yield which may be expected', says the Council, should also be exempt.

New Inner London Centre of the Association

A BRIGHT future lay before the certified accountant, said Mr G. L. Barker, F.A.C.C.A., President of The Association of Certified and Corporate Accountants, at the inaugural meeting of its newly-formed Inner London Centre on Thursday of last week. 'But we cannot just sit back and rest on our oars', he went on. 'Industry requires, and will require, more and more trained accountants, and one can only hope that the day is much nearer when the profession as a whole can meet the requirements of all sections of the community for men trained to specialize in accordance with its needs. Indeed, if this is not done, the organized professional bodies as we know them today will surely perish.

'I am supremely confident, however, that this will not happen. One is considerably heartened by events on the European and international scene; there are signs of closer co-operation in the profession. There is a realization among all thinking accountants the world over that accountancy knowledge shared will be the greatest insurance of survival. I personally look forward to the future with absolute confidence.'

The future of the new centre was toasted in champagne by a large gathering of members at the meeting held at the Association's Bedford Square headquarters.

Mr D. V. Bull, F.A.C.C.A., honorary secretary of the London and District Society, spoke on the objects of the new centre and the service it could give, and stressed its value as a means of communication between members and the Council of the Association.

It was the determination of the new centre's com-

mittee to find out the preferences of members as regards lecture meetings and other events. It was also planned to have an attractive social side and the needs of students would receive special attention. Co-operation by existing centres with similar branches of other professional bodies had been successful, said Mr Bull, and more joint ventures were being planned to study important new legislation and new techniques affecting the accountant. Such joint efforts avoided duplication and overlapping and commanded wider support. Study groups were to be set up to examine fields of interest suggested by members.

The first lecture meeting of the Inner London Centre will be on 'The taxation of capital gains', by Mr K. R. Tingley, A.A.C.C.A., of *Taxation*, on Thursday, March 10th, at 6.30 p.m., at the Horse and Groom, 128 Great Portland Street, W1.

Continued Squeeze

THE directive issued by the Bank of England last week to the clearing banks and other financial institutions that they must continue to limit advances, together with the tightened controls on hire-purchase and rental agreements announced on Monday, mean a continuation and hardening of the credit squeeze.

In May 1965, when the limit on advances was laid down by the Bank, it was requested that advances should not expand by more than 5 per cent between March 1965 and March 1966. By next month the level of advances will probably have increased by about 3 per cent. This modest advance has been accompanied by an increase in prices of over 4 per cent so that the increase in bank credit was completely absorbed by price increases. The fact that the banks increased their advances by only 3 per cent means, of course, that they have a little in hand.

The banks have been told that they must continue to give priority to export finance, so that there is very little room for manœuvre by internal credit. The main burden will fall on the individual (as it always does on these occasions) and this is particularly so at present since the finance houses are known to have reached the limit of 5 per cent. The critical issue is whether the continued restraint of advances can be prevented from affecting long-term investment plans by industry. If and when these become affected, deflationary pressure will be seriously at work.

Parliamentary Questions

LABOUR M.P.s have tabled questions to the Chancellor of the Exchequer for February 15th asking what steps he intends to take to prevent 'any further incidence of tax avoidance by bond-washing'. Mr Harold Walker (Doncaster) will call for an inquiry 'into tax avoidance arising from Stock Exchange transactions', while Mr Derek Page (King's Lynn) is to inquire what steps the Chancellor will take to recover revenue lost following the recent 'bond-washing' operations, resulting in the suspension of Stock Exchange members.

The President of the Board of Trade is being asked on February 17th by Mr Ray Mawby (Conservative, Totnes) what representations his department has received about the effects on industry and commerce of the corporation tax.

MAN OF ACCOUNT

Sir William McFadzean, C.A.

CHAIRMAN of the British National Export Council since it was formed in 1964 and previously Chairman of the Export Council for Europe from 1960 to 1964, Sir William McFadzean, C.A., COMPANION I.E.E., has for long been an energetic supporter of the export drive. Last week, he and his committee welcomed as a further incentive the proposed disclosure of export sales in company accounts.

One of Britain's most travelled industrialists, Sir William's services to industry are numerous. They have included the Presidency of the Federation of British Industries and chairmanship of its advisory council on the introduction to industry of retired service officers and colonial officials; vice-chairmanship and industrial leader of the Board of Trade's Advisory Council on Middle East Trade; chairmanship of the Industrial Federations of the European Free Trade Association, and the Presidency of the British Nuclear Forum.

Born in December 1903, at Stranraer, Wigtownshire, Sir William was educated at Stranraer Academy and High School, and Glasgow University. He was admitted to membership of the former Institute of Accountants and Actuaries in Glasgow in 1927 and subsequently spent a period of five years with Chalmers Wade & Co (now Chalmers, Wade, Impey, Cudworth & Co) of Liverpool.

Since then Sir William's business career has been associated with the electrical industry, which he entered in 1932 as accountant to the British Insulated Cables Co. He has been executive chairman of British Insulated Callender's Cables since 1961, the same year that he served as President of the British Electrical Power Convention. He is also a director of the Midland Bank and other companies, as well as being a member of the Council of the Institute of Directors.

Sir William, who was knighted in 1960, is married and lives at Woldingham, Surrey. He has a son and two daughters.

Moves on Monetary Reform

THE expectation is growing that there are reasonable prospects of agreement about reform of the international monetary system. Speaking in the House of Commons last week, the Chancellor of the Exchequer said that agreement so far had reached no more than matters of principle but there is a consensus of opinion among the highly industrialized Western European countries that additional liquidity is required to finance international trade and this is a definite step forward.

There are at present two groups, set up by the Group of Ten in 1965, examining this question of liquidity. The first of these is dealing with the problem of reducing the size and duration of deficits and surpluses of countries' balance of payments. The second group is concerned with increasing the supply of international money. Progress, apparently, has been quicker with the first group than with the second.

The second group seems to have got as far as agreement that new reserve assets should be created in addition to gold and reserve currencies, that the influence of the International Monetary Fund should not be reduced and that any scheme must meet the requirements of countries who are not members of the Group of Ten. The main unknown in the situation is the position of France which may adopt a more flexible attitude (recently indicated in its change of attitude on the European Common Market). The question of international liquidity has acquired a new urgency since both the United Kingdom and the United States plan to eliminate the deficits in their balance of payments before the end of 1966.

This is My Life

by An Industrious Accountant

WITH the steady increase in prosperity and size of our company, its hierarchial structure has expanded in sympathy. New layers have appeared in the office organization chart. The family tree has proliferated into additional branches, some of whose functions are ambiguous or overlapping. My own job in particular has changed completely in the last five years, administrative complexities almost superseding normal work.

Take our punched-card section for example. I personally initiated it some fifteen years ago when it was a simple twenty-column operation of punches, sorter and tabulator. Now it's swollen to eighty columns with a calculating unit and an interpreter and assorted ancillary extras. The section supervisor has improved all the programmes, and the staff are strangers compared with the elite I hand-picked originally. It's become a specialist's province. We've talked of computers – of which I've learned something – but when it came to a proper review of the report on the subject we naturally nominated the supervisor.

He's obtained permission to assign two men whole-time to study modern programming and techniques, while he does a residential training course. Clearly we'll need an autonomous and separate department in due course.

Debtors records have pursued a similar pattern. As long-outstanding accounts linked up firmly with a rise in bank overdraft interest we established a credit controller's position, with terms of reference covering all the section's work. He's proved a good choice, having been well licked into shape in internal audit, but he runs his section as his own private preserve. He personally interviews customers with problems, a part of the job which I used to enjoy once, thus easing my work-load and my job-satisfaction simultaneously.

One day last month I decided to stroll down to scrutinize the state of some of the accounts which were headaches in the past, but Prinny interrupted. He wanted to discuss the annual costs of our salary increments and increased directors' fees, and we spent most of the day drafting a report for the board.

To be quite frank, and strictly off the record, there's generally not much challenge or stimulation about our accounts. We deal traditionally in dry-as-dust figures and historical records. We lack the quick cut-and-thrust of the departmental buyer, or the thrill of the salesman when a well-planned marketing coup is pulled off. Advertising, wooing customers, reorganizing the store layout. revitalizing staff morale . . . these are higher and worthier aspirations. Poring over the private ledger, desk-bound, tabulation-oriented, paper-productive, how many accountants pursue the same dull daily round, like Siegfried Sassoon's soldiers at war:

> 'Some went glumly through it,
> Dumbly doomed to rue it'.

While I was thus feeling sorry for myself, Scotty strode in muttering angrily. 'Who'd be a sales manager nowadays? Only a daft fule! What with stupid nit-witted customers and pig-headed suppliers, and directors who can't hold to the same decision for half-an-hour on end, it's no life for a man at all! You accountants don't know your luck, with nothing but precise unambiguous figures to fill your day'.

By the time I'd explained to him how misinformed and incorrect he was, I was feeling better myself.

Running a Computer Service Bureau from a Practising Accountant's Office

by A. ERNEST M. HARBOTTLE, F.C.A.

A COMPUTER is the only machine made which has no particular purpose or specialized trade. T. W. McRae, n his excellent book *The Impact of Computers on Accounting* lraws attention to the following quotation:

> '. . . while being by definition unable to learn in the ordinary sense of the word, (they) may acquire certain striking accomplishments on a purely automatic basis. For example, they may be able to memorize simple mathematical procedures such as the tables in arithmetic, and produce answers to questions put purely along these lines with startling rapidity and accuracy. However, they are unable to apply these feats to any general purpose and their capacity for dealing in abstract thought is negligible'.

This quotation, he writes, can be taken as a fair description of a computer but is in fact Dr Stafford Clark's definition of an imbecile.

Beginnings

My firm first became acquainted with a computer when we were faced with the problem of preparing regular and quite complicated investment analyses. This is a tedious process by hand and it involves a great deal of checking and the reproduction of standard information. It therefore seemed to be an ideal application for a computer.

We approached manufacturers' service bureaux to find out whether they could undertake the processing for us. After some negotiations one of them agreed to do so and we began our life of producing statistics and accounting information by E.D.P. Unfortunately neither the service bureau nor ourselves appreciated the full complexity of our requirements and after several weeks of trial and effort we abandoned the project. I mention this because it was an early demonstration (which we did not appreciate at the time) of the high degree of skill which is required both by the customer and by the computer bureau if technical work is to be successfully carried out.

We were at least as much to blame as the computer bureau. We lacked adequate knowledge of the limitations of the computer and of the special problems which would arise from our demands for information; on the other side, the computer bureau did not have an adequate understanding of the intricacies of investment analysis and the problems of foreign currencies and taxation. This event in itself was of little importance, but later we realized that it is the standard pattern of the problem which arises in every case between the customer and the computer. So our first setback proved useful in teaching us an early and invaluable lesson. Reluctantly we continued our investment analysis by hand. In the meantime we had other problems to solve.

About this time we became aware of the existence in the United States of a computer bureau which was specializing in providing services for professional accountants all over the United States. This bureau had developed systems for the production of detailed trading and profit and loss accounts and balance sheets suitable for various trades and industries. It had established a computer centre and made arrangements with practising accountants to produce punched paper tape in their offices, recording the basic transactions for the period of the accounts required. Tapes containing these transactions were mailed to the computer bureau in special envelopes very much on the lines of those used for sending film to processing laboratories.

The computer centre held the opening balances for the clients of these firms, processed them along with the new tapes and sent back typed working papers, detailed trading statements and balance sheets. We made inquiries direct from them about their activities and they immediately offered to provide us with their services by post to Bristol since as they put it, they already had customers in Honolulu which was much further away from New Jersey than Bristol! However, they only dealt in dollars and cents and we did not think our clients would really like this. Our inquiries in England of the various computer manufacturers about the possibilities of this kind of operation met with little response.

Some of our partners then decided to visit the United States and so began a whole search for information regarding the methods used in America by the accountancy profession and by industrial accountants to find out how we might

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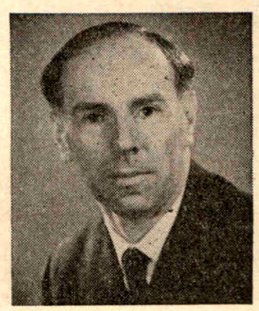
the author of this paper given at a recent meeting of the London and District Society of Chartered Accountants, is senior partner in Grace, Darbyshire & Todd, Chartered Accountants, of Bristol.



solve our problems. We received wonderful co-operation and help of a most generous nature. When we returned home to the cold reality of life in England we had to struggle hard to find anyone who would take an interest in our need for computer equipment. Nobody sold it to us, we had to buy it. After a lot of heart searching the partnership finally agreed to take the desperate step of ordering a small computer, an electronic scanner which automatically punched paper tape direct from documents, together with sundry peripheral equipment; the die was cast.

Objectives

Over many years, like other accountants, we had struggled with the cumbersome problems that arise from orthodox double entry book-keeping. Analysis books, copywriting, book-keeping machines, punched card equipment had all passed our way – none of them providing a really satisfactory solution to the reams of paper and ink which are required to record a large number of transactions and end up with a profit and loss account and balance sheet.

The possibility that accounting at the detail level could be genuinely automated seemed to have emerged at last. The ability of a computer to accept a vast volume of transactions and to add, subtract, transfer, balance or carry out any juggling which the circumstances require, appeared to be within our grasp; thus we set about our task with a vast enthusiasm which was fortunate in the light of the many struggles, problems and long hours which lay ahead.

We needed the computer to do work which we were already finding onerous by orthodox methods within the office. We needed it for technical training of our staff so that they might be properly equipped to audit those of our clients who were already using computers; and we needed the computer to do work for our clients which neither they nor we could do satisfactorily without some new and superior technical equipment.

Policy

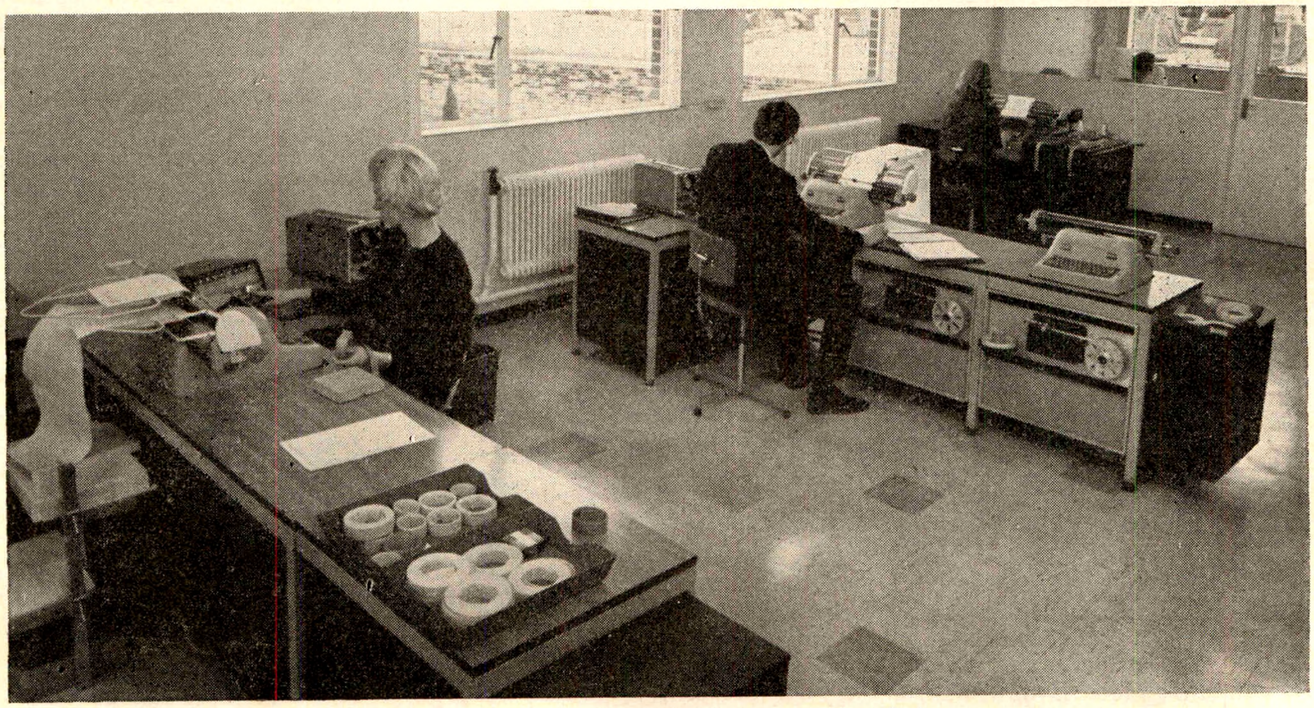
It was not our intention at the outset, nor is it our intention now, to contemplate competing with the existing computer service bureaux. They perform a function which is quite separate from what we are trying to do. Our policy is to use E.D.P. as a tool of the accountant.

John E. Lennox, C.P.A., writing in the November 1964 *Journal of Accountancy* says:

> 'Commercial service bureaux are often run by non-accountants whose lack of knowledge of accounting terminology and accounting systems handicaps them in producing the results desired. We found the work done by these centres to be generally good but on the whole inadequate to meet our firms' needs.'

We have spent most of our lives studying and practising accountancy and it is quite impossible to acquire a lifetime's experience in accounting in any other way. If we are to use E.D.P. for our own purposes, we must be the ones to define the accounting principles and to design the accounting systems. The lifetime of E.D.P. has been relatively short and the workings of E.D.P. are devastatingly simple, logical and precise. There is no reason why we should not make ourselves reasonably proficient in data processing in a relatively short time, but we must recognize that the really important and skilled part of the work lies in envisaging the systems required by a business and then the detailed working out of the system.

We believe that the work carried on with E.D.P. equipment must be on exactly the same professional basis as is applied to general practice. The staff must observe the same standards of treating data as confidential information, and there must be proper security for data in our possession. It seems to us that where a professional firm is engaged in an activity of this kind, it must not sell computer time at so much an hour, or so much a line for processing. The end product consists of the typed trading and profit and loss account which is handed to the client just as it is now. It is



Part of Grace, Darbyshire & Todd's computer installation.

our job to see that the end product is right. This involves us in a far closer relationship with the client than could possibly be expected of a commercial service bureau. It requires that we must ensure that the systems are adequate. If necessary we must design them ourselves. We must supervise the data which is coming to us from the client and we must inspect the finished results to make sure that they are sensible.

Software

The computer world uses the term 'software' very freely. At times it seems to have different meanings which is very confusing. However, we have come to believe that in its widest connotation it means everything that is involved in planning systems and preparing programs and also the various methods and gimmicks and short cuts relating to the operation of the computer itself. Or put another way, if the computer is called 'hardware' then everything else must be 'software', but it is precisely in the 'software' that the real problems of computer work emerge. This is much more true of an installation which is catering for the needs of different users and so for different types of work.

The cost of preparing individual, as opposed to standard, systems and programs for each client is prohibitive, not only as a cost expressed in pounds, shillings and pence but because there are just not enough trained people available to do the work. This problem must face anyone who is attempting an operation of this kind, for it has both economic and practical consequences and bad judgment at this point may spell disaster. We do not believe that the average client either needs, or can afford, special systems and programs to carry out work which can be done by a standard system and program based on normal accounting routines which we use for everyday transactions. As an example, a well-designed standard system and program to pay and analyse purchase and expense invoices should normally be acceptable to any client.

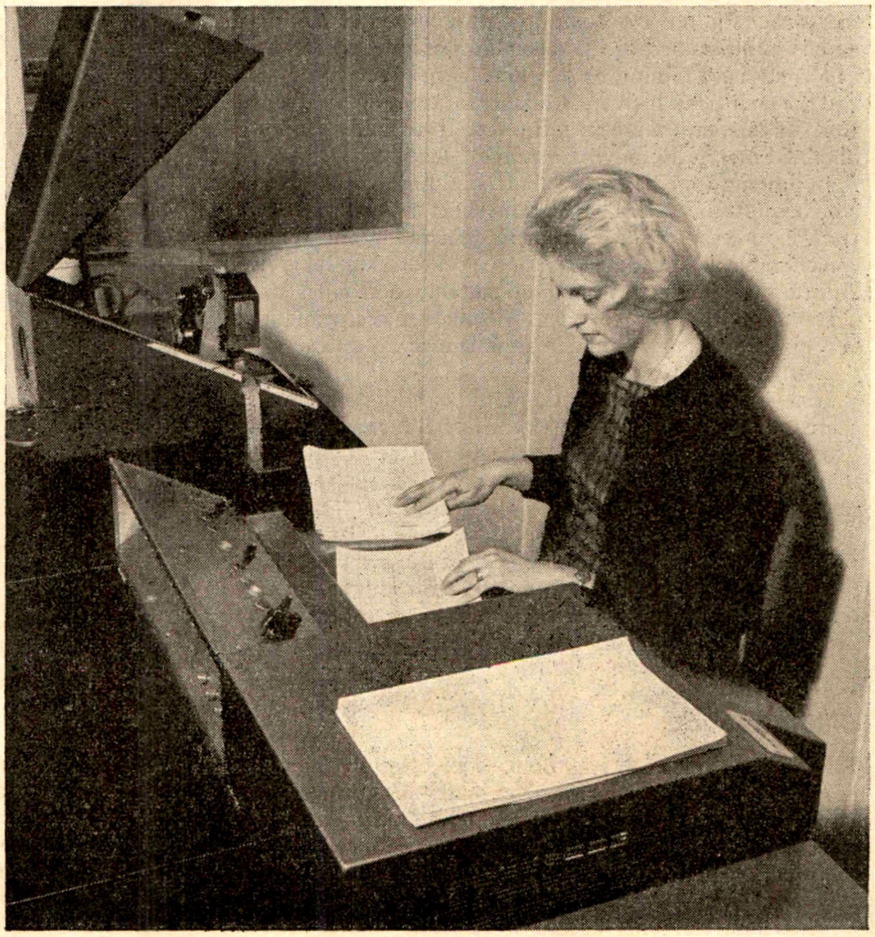
We have found that many of the variations between clients' existing systems are, in fact, idiosyncracies of no real significance or minor variations in the manner of execution. Once these have been removed, what remains approximates to a standard system. The computer manufacturers, in their understandable desire to sell machines, have pandered to a prospective customer's peculiarities and have effectively designed tailor-made systems and programs for each customer. In order to be economic and to be able to offer clients a service within a reasonable time, one must invest in the preparation of standard systems and programs. I recognize that a standard system, if it is to gain widespread acceptance, must be brilliantly designed. The development of these systems is of prime importance and is the highest individual cost which has to be met. It may amount in total to more than the cost of the computer itself.

Data preparation

The limitations of key-punching as related to adding machines, book-keeping machines or punched cards have always been one of the great costs and inefficiencies of mechanical accounting. Various solutions have been sought over the years by the punched-card manufacturers to provide a cheaper and more efficient method of punching cards than line-by-line key punching. The tub file of pre-punched cards and the use of mark sensing cards are both examples of the developments which took place.

We became aware of the work which had been done by Lyons in the production of an electronic scanning machine, LECTOR, for automatic punching direct from handwritten documents. This equipment was originally developed to cope with some of Lyons' distribution paper work. It is a machine of great flexibility and it will read marks written on pre-printed forms which can be produced on quite ordinary paper. These forms are capable of being designed in an almost infinite variety of layouts. They require very little skill to use, and although the information is marked rather than written, they can be read by anyone. We realized that if time was given to the production of systems based on this machine, almost any accounting record could be developed to be read by the LECTOR.

Thus basic documents marked in LECTOR code could be used to provide data for the computer in a form acceptable to it and punching could be carried out automatically and accurately. In the light of this we decided to base our whole E.D.P. program on automatic punching by means of



Operator feeding forms into the LECTOR document reader

LECTOR. This was a key decision which we have never had reason to regret. The possibilities of this equipment are enormous and we have barely scratched the surface of its potential use. Its speed of operation is exceedingly high and one machine has an enormous capacity.

The decision to use this equipment means, of course, that computer operations will be carried out almost entirely through the medium of punched tape rather than by using punched cards. We believe that we have come nearer to the automation of accounting processes by the use of this machine than by any other single step which we have taken. In practice, the discipline of the LECTOR forms has proved no disadvantage. Nor are the required tolerances found to be in any way onerous or difficult to achieve. Of course, it must be possible in addition to do a limited amount of key punching in order to introduce special entries and other non-standard information to the computer. This is perfectly acceptable when the bulk of the load is handled automatically.

Technical training

It is part of our whole concept that accountants are the right people to design and prepare systems for accountancy procedures and to convert them into a form for the programming of the computer. Nevertheless in spite of the advantage of using trained accountants for this work, the present training of a chartered accountant is not in itself enough. He needs considerable further education in the logical design and preparation of systems particularly in the form required for computer programming. Above all he has to be trained in the disciplines of systems definition and analysis. Training of this kind is not easy to organize and the facilities which are available for training in advanced work of this nature are very limited. It certainly cannot be obtained merely by buying a suitable textbook.

In practice, one has to set about building an organization which will train staff. There are no short cuts available. The work is interesting but extremely demanding and requires considerable dedication by those concerned. It is well known that the recruitment of suitable personnel under current conditions is not easy. Mistakes in recruitment are very expensive, and valuable time is lost. And time is not on our side.

It is estimated that in the United Kingdom in 1974 there will be 5,200 computer installations employing 110,000 personnel. Existing educational facilities indicate that provision exists to train only one-half of this number.

The importance of this aspect of technical knowledge requires that it should become part of the syllabus for the final examination of the Institute. The introduction of these techniques into the training of future members of the profession is essential and demands urgent attention.

Client training

E.D.P. techniques can only be used successfully by a business or organization which carries on its affairs and routine transactions in a disciplined manner. This is true, in a measure, of any advanced accounting procedure but much more so when the automatic processes of a computer are involved.

Thus one can only accept work from clients after an investigation has been made to discover whether adequate discipline does exist or the client has the will and ability to create it. Here one's accounting experience and background is invaluable in assessing the quality of the administration of the business.

However good the existing procedures may be, E.D.P. will prove a sterner disciplinarian. Thus it is essential to begin at the outset to explain, and go on explaining, the requirements of the computer in terms of data reliability, both as to quality and timing. A vast adjustment of mind will be required and it will take a lot of time and patience to convert and teach the clients' staff their part in the operation. The computer bureau must possess staff capable of doing this teaching job.

On the other side, great care must be taken to study the clients' needs and fully understand his problems. E.D.P. is the servant of the client, never his master – it is the tool of the accountant and not the reverse. The client is under no obligation to use E.D.P. – our job is to teach him how to benefit from its use. It may well be impossible to run some types of human organization in such a way as to meet the requirements of computer accounting. Let us recognize this situation when we meet it, or the last state will be worse than the first.

Achievements to date

When we started on our enterprise you will realize that we were by no means as conscious of the snags and difficulties as we are today and as I have tried to describe. Our first project was a payroll program, which seemed to be something simple and concrete which would at least earn a little towards the cost of running the installation. It was not as easy as we had hoped but nevertheless by the essential April 6th, we were able to start on the preparation of weekly wages and monthly salaries. In spite of all our problems and the terrifying fumbling and slowness of our earliest efforts, we always managed to have the right answer in time for the wages to go into the packet.

Our first large project was a stock control job for a retail store company. Here we set ourselves a most ambitious program to prepare all the data on LECTOR forms which would be converted automatically into punched tape and then fed into the computer. It took us nine months of hard work preparing and testing programs, carrying out trial runs before we were able to deliver the goods. However, after nine months we had devised working systems which would control the volume and valuation of the stock in a large central warehouse and in about forty retail stores. We provided reports for buyers as to the stock levels. We provided gross profit margins of commodity groups and in total for individual stores week by week and we are continuing to do so.

Of course there were teething troubles; we were just learning to make effective programs. We had not foreseen many of the eventualities. On the other side, the data did not always come in satisfactorily. The client's staff who were responsible for producing the data took considerable time to appreciate the importance of precisely what they were doing, just as our staff took considerable time before they became accustomed to all the computer operating procedures and internal checks. Nevertheless we succeeded, even though some days we worked twenty-four hours to make good data or operating difficulties.

Month by month as experience grew, the operation became much more streamlined and we began to feel that the

vast effort had not been in vain. In fact, looking back, we had achieved far more than we realized at the time when the difficulties were all around us. We had learnt many hard lessons which were to serve us well in the avoidance of future mistakes in policy and detail.

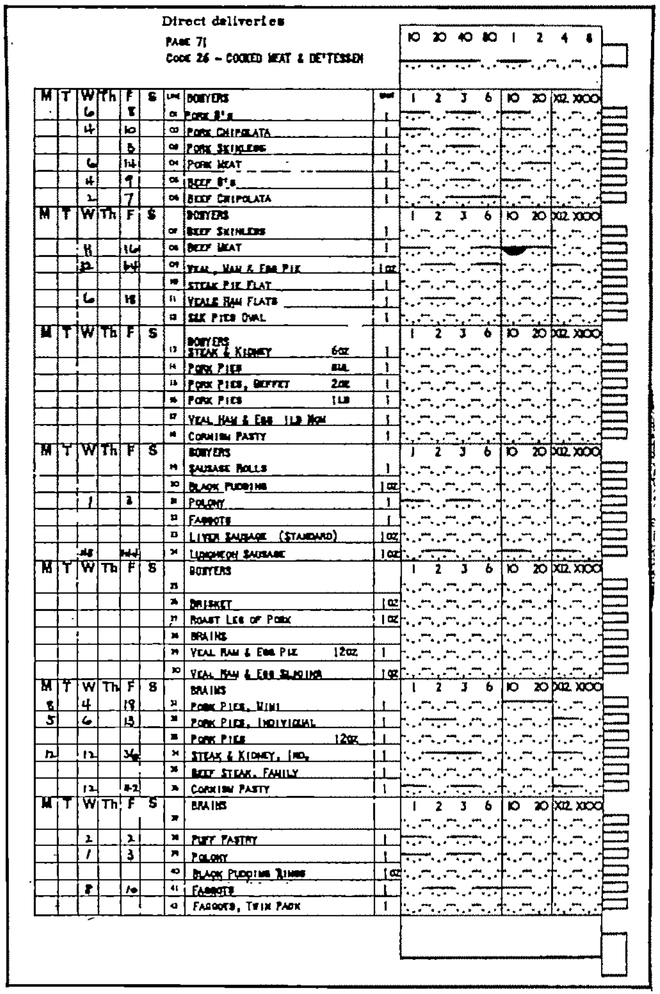
Following this we turned our hands to the preparation of a full registration program for a unit trust. Here we have set out to produce the contract notes for the issue of units, the unit certificate, register of unit holders, calculation and payment of distributions and, very usefully, the facility of envelope addressing.

A registration system of this kind is complicated and requires considerable technical effort and attention to minute detail. The hard lessons of stock control which in its own way has the same features as registration – that is to say, accounting for the whereabouts of goods as opposed to units – came in very useful. We now knew how difficult it was to envisage every possibility in advance, and perhaps most difficult of all, to persuade the user to accept and have confidence in an unconventional approach to the problems hitherto solved by a long-established traditional method.

We have also developed a system for the preparation of monthly trading and profit and loss accounts and balance sheets which can be run each month for any client who will co-operate with us in producing the basic data. We have evolved LECTOR forms upon which the monthly accounting data can be written and submitted to us for automatic punching and preparation of the accounts through the computer. The production of the data on LECTOR forms can be done in an exceedingly flexible way. It does require a high degree of co-operation between the client and ourselves, but if the client is really interested, this system can do a very rapid job at an economic cost. The computer turns out typed accounts which can be copied with Xerox or similar equipment. The whole process of preparing the accounts from the data probably takes on average about one hour. You will see the immense possibilities in this processing operation. We are only just beginning to work on its development as a basic part of our service.

The project to which we are looking ahead is the creation of a suite of standard programs to carry out the normal financial accountancy operations together with stock control. The task of preparing such systems and programs will take several years both because of the cost involved and the technical time required. Nevertheless we are guiding our investment in systems and programming in such a way as to build up the nucleus of the programs required to provide such a service. Our policy of investment in software means that we are only prepared to undertake work which will harmonize with this overall policy. This seems to us to be an essential strategy, as a collection of unrelated programs cannot result in any effective overall service being available when required.

If reasonable standard programs are not available, the writing of special programs and systems may involve delays of up to twelve months before work can be undertaken. This is a serious disadvantage, first of all to the client who does not wish to wait such an unreasonable time, and secondly, to ourselves who are thereby prevented from earning income because of the absence of a system and program which at least could give the client most of what he requires. Any program must pay its way and therefore there must be a real demand for its services. An investment in one-off programs can be economically ruinous.



Stores delivery sheet designed for use with the LECTOR document reader. The 'scanning area' is the right-hand section of the form.

We are also dreaming about revolutionizing our taxation practice by introducing it to the computer. Of course, the computer has not studied taxation but we believe we can teach it all it needs to know. After all, that is our job.

Co-operation

One of the exceedingly pleasant things about being involved in the computer field is that other computer users are so helpful and co-operative. We owe a great debt to many people both in the United Kingdom and in the United States for so willingly and freely giving us the benefit of their experience. By ordinary standards we had not the slightest reason to expect that they would put themselves out in this way. But everybody helps everybody else; everybody is willing to do processing for his neighbours or his competitors; people with small equipment rent time from people with big equipment; programs can be acquired from other users on reasonable financial terms. We are all aware of the limitations of our knowledge and are always glad to learn from other people's experience.

This means that if computers are to be developed within the profession, the profession must learn to achieve the

kind of co-operation which already exists in the computer field. The background of the professional world, whether it be accountancy or any of the other professions, has proved to be one of restrictive practices. There is a very real need for this approach to be changed and changed quickly. Every firm of chartered accountants will not be able to have a computer; most will need either to share it with other firms or to share it with other computer users. Even so, one must be prepared to take considerable risks.

Our partnership policy has been clear from the very outset in that clients who come to us for computer work and who are not already clients of our general practice, should not be accepted as clients for other types of professional work which are already being carried out by other firms. I am sure that it is of great importance that those of us who are involved in running computer installations should make it abundantly clear that we do not want to accept into our general practice new clients via the computer division. On the other hand, we would wish to extend to all other firms the benefit of co-operation with our computer division in carrying out work for them or through them for their clients.

I have already mentioned the interesting development of the preparation of monthly accounts on a computer. This is a service that firms with computers can do for firms who have not got these facilities. Both firms can benefit substantially and there is a great need for a spirit of co-operation to develop amongst the various offices.

I hope it is not out of place for me to mention the new regulations of the Scottish Institute relating to the use of computers by their members. These are much more liberal than those that have been adopted by our own Institute. I think that they represent a view which is much more compatible with the last half of the twentieth century than the very stern restrictive practices which have been indicated by the English Institute. I hope that any of you who are involved with official policy in this respect may be encouraged by what I have said, to reconsider the desirability of maintaining the heavy restrictive practices used generally within the profession, and whether it would not be to the advantage of everybody concerned if a more liberal and co-operative policy was adopted.

I have found some difficulty in preparing a succinct summing up of the situation, but I think I can do no better than to quote to you the remarks of the President of the American Institute in his presidential address late last year:

> 'It is a great deal later than many C.P.A.s think. We need as a profession to have a deep sense of urgency. We need, however, to recognize clearly that computers, and their applications to business cannot be mastered by discussion at an occasional meeting, or by the casual reading of a few articles. We need to believe deeply that unless our profession achieves this mastery, it will suffer a grevious perhaps mortal blow. . . .
>
> 'We can and must learn to use the magnificent capabilities of the computer, or it will by-pass our skills and render us and them obsolete.'

EDITOR'S NOTE: The following are the respective 'regulations' of the English and Scottish Institutes on mechanized accounting and computer services to which Mr Harbottle refers above.

English Institute's statement of March 31st, 1965:

MECHANIZED ACCOUNTING OR COMPUTOR SERVICES

(a) Members should be encouraged in the interests of clients and of the profession as a whole to provide mechanized accounting and computer services, it being recognized that the opportunity to do so will be taken in increasing degree by others.

(b) Such services should not be advertised, nor should soliciting be allowed, other than by direct communication with other members of the profession who are in practice.

(c) Such services may be offered through an unlimited company but not, in the case of practising members, through limited companies.

(d) A member offering such services should not normally accept auditing, taxation or other conventional accountancy work from any client introduced to him by the client's own professional accountant for the provision of mechanized accounting or computer services.

(e) In the event of an introduction for mechanized accounting or computer services other than through the existing accountant it is desirable that the member should communicate as a matter of professional courtesy with the existing accountant notifying him of the special work he has been asked to undertake.

From the Scottish Institute's statement on Advertising Solicitation and Related Matters, of May 6th, 1965:

MECHANIZED ACCOUNTING AND COMPUTOR SERVICES

(16) In any particular case where the Council so permits, a member in public practice may be a director of a limited company providing mechanized accounting or computer services.

(17) There is no objection to a member who is not in public practice acting as an employee (other than a director) of a company which provides mechanized accounting or computer services, notwithstanding that its provision of such services is advertised.

(18) Where a member (whether or not in public practice) is a partner in a firm, or director of a company, which provides mechanized accounting or computer services, and where in any particular case the Council so permits, he may allow such firm or company to advertise such services (it being envisaged that in considering any application for permission to advertise the Council would have regard to the scope and specialization of the work and to the capital value of the equipment).

Qualifications in Auditors' Reports

Statement on Auditing No. 6

The Council of The Institute of Chartered Accountants in England and Wales has issued for the guidance of members the following statement on qualifications in auditors' reports made under the provisions of the Companies Act, 1948. References throughout are to the Companies Act, 1948, unless otherwise indicated.
The Statement was prepared before publication of the Companies Bill, 1966, and will be revised as necessary as soon as possible after the new legislation has been enacted. The main principles set out in the statement remain unaffected. (The statement forms part of the proceedings of the meeting of the Council reported elsewhere in this issue.)

PART I: PRINCIPLES

General considerations

AUDITORS are required by the Ninth Schedule to the Companies Act, 1948, to state expressly whether in their opinion the accounts on which they are reporting give a true and fair view and otherwise comply with the requirements of the Act. If they are unable to report affirmatively in the required respects they must say so.

2. Auditors are normally able to give an affirmative report, that is, one in which they are able to state without reservation that the accounts give a true and fair view and otherwise comply with the requirements of the Act.

3. There are, however, circumstances in which auditors are unable to give an unqualified report, because in their opinion one or more of the following arise:

(*a*) they have not obtained all the information and explanations they required;
(*b*) proper books of account have not been kept, or proper returns have not been received from branches not visited by them;
(*c*) the accounts are not in agreement with the books of account and returns;
(*d*) the accounts fail to comply with the specific disclosure requirements of the Act;
(*e*) the accounts do not give a true and fair view;
(*f*) in the case of a holding company submitting group accounts, the group accounts have not been properly prepared so as to give a true and fair view in accordance with the requirements of the Act;
(*g*) matters have not been disclosed in the accounts by virtue of the exceptions for special classes of company given by the Board of Trade under Part III of the Eighth Schedule.

The foregoing are all matters which are required by the Ninth Schedule to the Act to be expressly stated in the auditors' report. They are discussed at greater length in paragraph 10 below.

4. A qualified report is not normally necessary unless the amounts at issue are material (apart from information relating to directors' remuneration specifically required by sections 196 and 197 to be given in the auditors' report if not disclosed in the accounts). If a qualified report is called for the auditors must decide:

(*a*) to which one or more of the specific matters noted above their reservations apply;
(*b*) whether they actively disagree, or on the other hand lack sufficient evidence to enable them to form an opinion, as regards material items in the accounts;
(*c*) whether, in either event, the matters in question are so material as to affect the presentation of a true and fair view.

If, for instance, the items in doubt or disagreement are limited, that is, not so material that doubt is cast on the view shown by the accounts as a whole, the auditors will be able to report that, in their opinion, subject to specific reservations or with specific exceptions the accounts present a true and fair view. (See paragraph 16.) There may, however, be cases where the unsubstantiated items, or those in disagreement, are so material that the auditors must report, stating their reasons, either:

(i) that they are unable to report whether the accounts present a true and fair view (see paragraph 17), *or*
(ii) that in their opinion, the accounts do not present a true and fair view. (See paragraph 18.) A qualification in these terms is made only in extreme circumstances.

5. The Act lays down no specific requirements as to the manner in which auditors should, where they judge it necessary, qualify their report. This can be decided only in the light of the circumstances of each particular case. It would be undesirable, and this Statement does not try, to suggest standard forms of wording that might be appropriate to the variety of circumstances in which it may be necessary for auditors to give a qualified report. But the guiding principle, that it is the duty of an auditor to convey information, not merely to arouse inquiry, is long established.

6. Before giving a qualified report auditors should discuss the accounts with the company's management and make their views clear so that the opportunity may be taken by the board to examine the matter at issue and, so far as the directors judge practicable and appropriate, steps may be taken to provide any information which is lacking or to amend the accounts/in such a way as will enable the auditors to give a report without qualification.

7. A qualifying statement should be direct and informative. It should be so phrased as to leave the reader in no doubt as to its meaning or the view formed by the auditors or the implications for the accounts. It should:

(*a*) be as concise as is consistent with clarity;

(*b*) be specific as to the items and facts and as far as possible the amounts involved;

(*c*) within the limits of the information available to the auditors, make clear its effects on the accounts; and

(*d*) express the auditors' opinions without possibility of misinterpretation.

The object should be to give in clear and unequivocal terms, so far as circumstances permit, such information in augmentation of that provided by the accounts and notes thereto as will, in the auditors' opinion, provide the information required by the Act, and ensure that the accounts will then give a true and fair view.

8. The fact that the auditors have qualified their report normally merits special attention on the part of shareholders and others who may place reliance on the accounts. Prominence may be given to a qualification by placing it at the beginning of the auditors' report, and this practice has been adopted in the examples which follow, but position is less important than substance and observance of the standards suggested in paragraph 7 above.

9. It must be emphasized that the fact that auditors may judge it necessary to include qualifying statements in their report does not necessarily impugn the financial integrity of a company's directors, who are ultimately responsible for the form and presentation of the accounts and the information they contain. There may, for instance, be factors affecting certain assets or liabilities of the company which give rise to a difference of opinion between directors and auditors as to the amounts at which the relevant items may be fairly stated in the accounts. It is the duty of the auditors to exercise their independent judgement and express their opinion. The auditors' obligation is inescapable. It would be wholly inappropriate, for instance, for auditors to seek to avoid it by resigning before the expiry of their term of office because they are dissatisfied with the position disclosed by their audit.

Circumstances in which qualification may be necessary

10. The circumstances which may cause auditors to introduce qualifying statements into their report include the following:

(*a*) If the auditors are unable to obtain all the information and explanations they consider necessary for the purpose of their audit; for example, if they are unable to obtain satisfactory evidence of the existence or ownership of material assets, or of the validity of substantial payments, because the evidence has been lost or destroyed, or is otherwise not forthcoming.

(*b*) If in the opinion of the auditors proper books of account have not been kept in accordance with section 147 of the Act.

(*c*) If the balance sheet and (unless it is framed as a consolidated profit and loss account) profit and loss account are not in agreement with the books of account and returns.

(*d*) If in the opinion of the auditors the accounts, though based on proper books of account, fail to give the information required by the Act; for example a failure to comply in material respects with any of the specific disclosure requirements of the Eighth Schedule.

(*e*) If in the opinion of the auditors, the accounts, though otherwise complying with the requirements of the Eighth Schedule, fail to disclose a true and fair view, for example:

(i) because in the auditors' opinion they do not comply with accounting principles appropriate to the circumstances and nature of the business; or

(ii) because they are prepared on principles inconsistent with those previously adopted and without adequate explanation and disclosure of the effects of the change; or

(iii) because the auditors are unable to agree with the amount at which an asset or liability is stated; or

(iv) because the auditors are unable to agree with the amount at which income, or expenditure, or profit is stated; or

(v) because the accounts do not disclose information which, though not specifically required by the Act, is necessary for the presentation of a true and fair view;

(vi) because the amounts at which any significant items in the accounts are stated are the subject of a note to the accounts, or to a reference in the directors' report, containing additional information which is, in the opinion of the auditors, essentially a material qualification of the amounts at which the items are stated, or which affects the presentation of a true and fair view. Notes to the accounts form part of the accounts for the purposes of the Act. But disclosure of significant accounting information by way of note to the accounts or otherwise does not in itself necessarily ensure the presentation of a true and fair view.

(*f*) If, in the case of a holding company submitting group accounts, in the opinion of the auditors the group accounts have not been properly prepared in accordance with the provisions of the Act so as to give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries so far as concerns members of the company;

(*g*) if any matters which should otherwise have been disclosed in the accounts have not been disclosed by virtue of the exceptions for special classes of company (including banking, discount and assurance companies) given by the Board of Trade under Part III of the Eighth Schedule.

11. In addition to the matters set out in the Eighth Schedule, sections 196 (8) and 197 (3) of the Act place a specific duty on the auditors to disclose in their report the required particulars of directors' remuneration and loans to officers if the accounts themselves fail to do so. These specific requirements, which are statements of fact rather than of opinion, speak for themselves and are not dealt with in this Statement.

Consolidated accounts – subsidiaries' accounts audited by other firms

12. In accordance with the terms of the Ninth Schedule, the auditors of a company submitting group accounts must report whether these have been properly prepared in accordance with the Act so as to give a true and fair view.

The special problems which arise for the auditors of the parent company (who are responsible for reporting on the group accounts), where the group accounts include material

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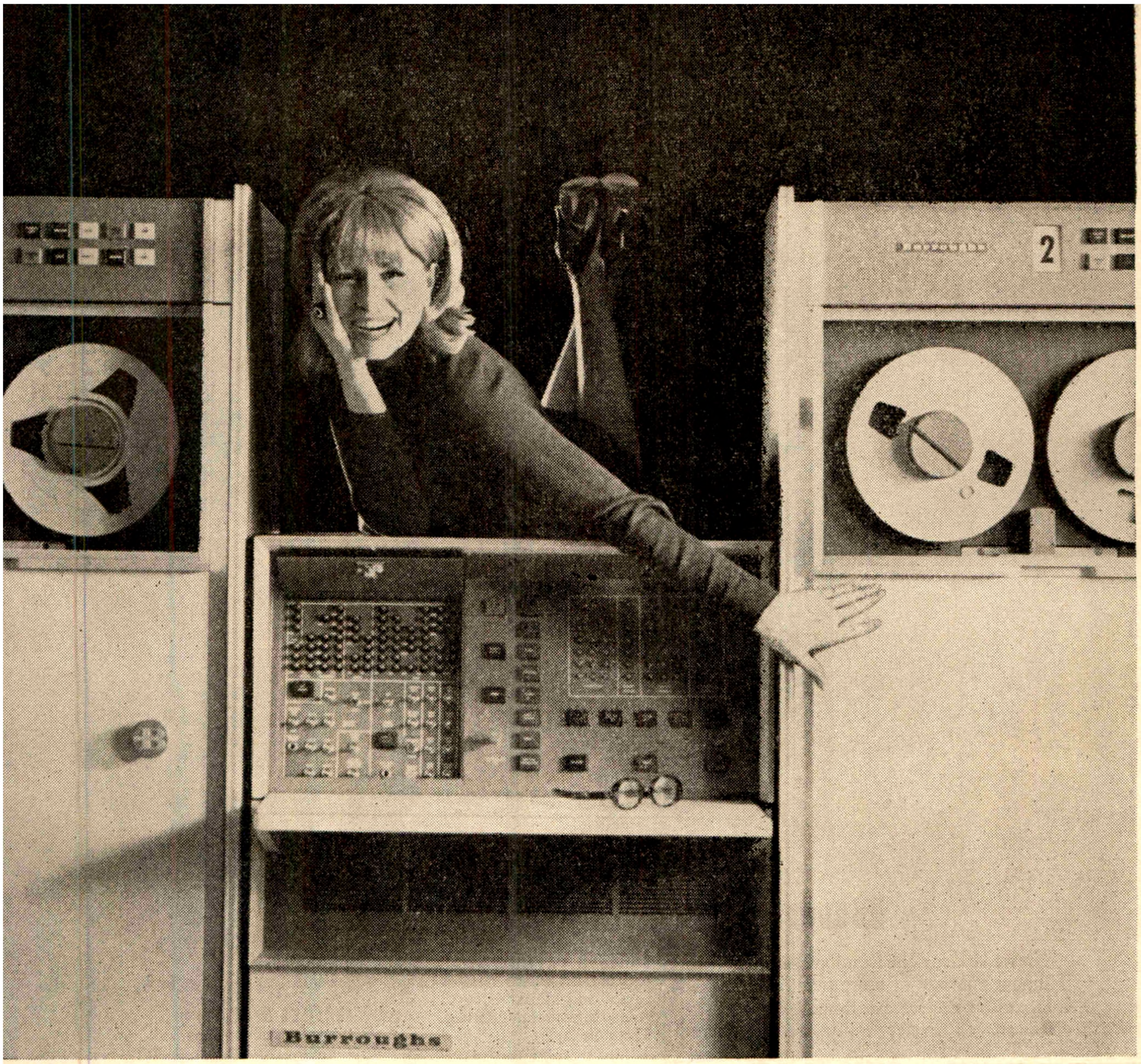

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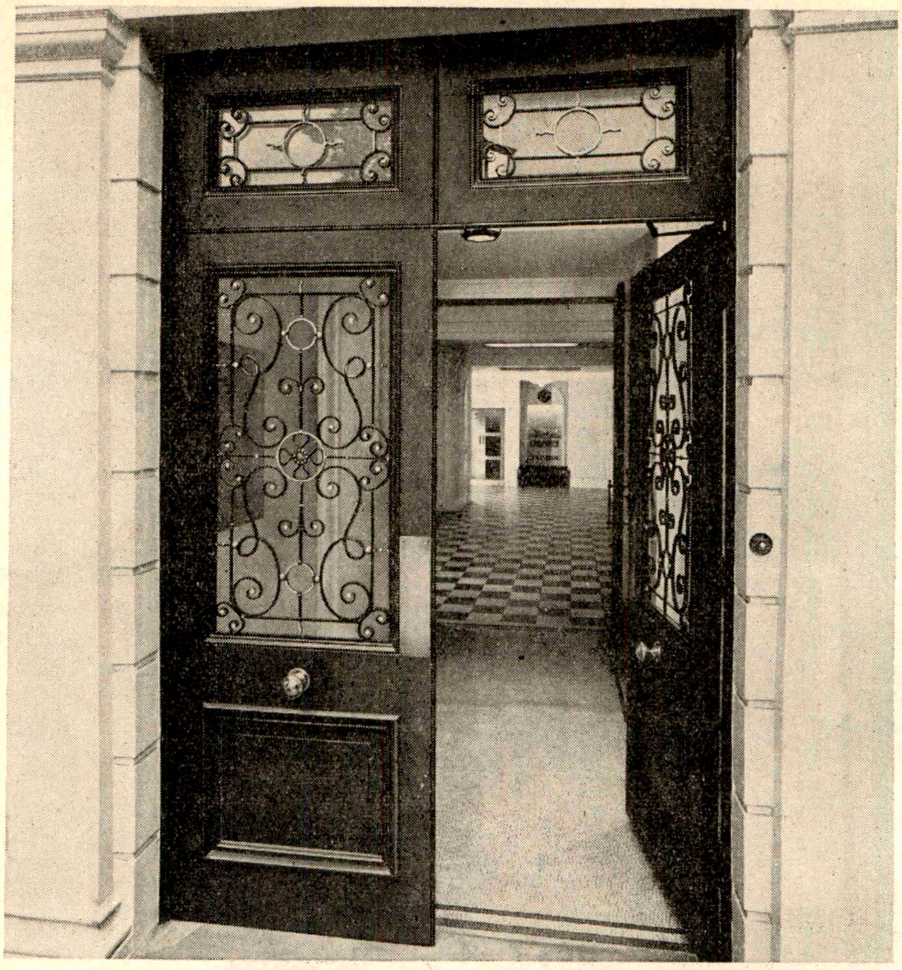

The Institute of Chartered Accountants in England and Wales

Results of Examinations held in November 1965

FINAL EXAMINATION (Old Syllabus)

Order of Merit and Prizes

First Place in Order of Merit, the Institute Prize, the W. B. Peat Medal and Prize, the O. C. Railton Prize for the year 1965 and the Plender Prize for the paper on General Financial Knowledge, Cost and Management Accounting
Lamb, Adrian Frank (N. Dunn), Newcastle upon Tyne

Second Place in Order of Merit, the Walter Knox Scholarship and the Plender Prize for the paper on English Law II
Eastaway, Nigel Antony (H. J. H. Greenacre), London

Third Place in Order of Merit, the Plender Prize (equal with one other) for the paper on Taxation and the Plender Prize for the paper on English Law I
Tarrant, Michael Francis (D. V. Hinkley), London

Fourth Place in Order of Merit and the Charles M. Strachan Prize
Wattis, David John (J. F. Swindell), Birmingham

Fifth Place in Order of Merit
Simmonds, Stanley (C. S. Raine), London

Sixth Place in Order of Merit
Wilmot, David Keith (E. G. Lambard), London

Seventh Place in Order of Merit
Whitfield, Peter Storey (H. G. M. Leighton), Bristol

The Frederick Whinney Prize and the Plender Prize for the paper on Advanced Accounting II
Allen, John Albert (P. A. Smith), Leicester

The William Quilter Prize
Madders, Rosemary Margaret (A. D. L. Thomas), Norwich

Plender Prize for the paper on Advanced Accounting I
Baird, James David (A. H. B. Wood), London
Climpson, Trevor Sidney (T. S. Taylor), Gravesend

Plender Prize (equal with one other) for the paper on Taxation
Dennis, Richard John (A. C. F. Hardwicke), Weymouth

Plender Prize for the paper on Auditing
Baker, Colin Robert (L. A. Hall), London

LIST OF SUCCESSFUL CANDIDATES

The name shown in brackets is the name of the principal to whom the clerk has been articled. Where the name of the principal is not given the candidate is a former bye-law candidate of the Society continuing his qualifying service not under articles.

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Ahmad, A. (J. M. E. King), Manchester
Ahmad, K. R. (R. L. Malcolm), London
Aird, A. A. (R. W. Aitken), London
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Evans, O. M. (J. A. B. Jones), Swansea
Ewart-White, D. V. E. (J. R. Paul), London

Faleye, O. (D. C. Hobson), London
Farrow, M. A. (J. B. Sanderson), Ipswich
Feldman, S. L. (R. Kay), Manchester
Feldman, T. I. (M. Peters), London
Fellowes, M. D. D. (L. R. Fradin), London
Fells, A. J. (W. J. Leeming), London
Felton, R. C. (E. H. Orford), London
Fenton, R. W. G. (S. Price), Gloucester
Fenton-Jones, J. F. (W. R. Ward), London
Ffoulkes-Jones, R. G. (J. A. Owers), London
Field, D. E. (O. Couse), Birmingham
Field, H. M. (R. H. Jenkins), London
Field, R. G., Hull
Fielden, C. A. (F. A. Sherring), Manchester
Fielding, J. A. (P. Godfrey), London
Fish, M. W. (M. D. Raettig), Hull
Flesher, P. S. (D. E. Walker), Bradford
Fletcher, R. (T. W. Hunt), Doncaster
Forrester, D. T. (C. Pearson), Liverpool
Foster, J. D. (E. D. Adams), Bradford
Fowler, J. R. F. (G. B. Langford), Petersfield
Francis, D. J. (H. C. Cox), Manchester
Francis, P. R. (Sir Wentworth Rowland), London
Francis, R. F. (E. J. Chard), Southampton
Freeman, D. (R. J. Crowe), Newcastle upon Tyne
French, C. G. (F. B. Proctor), London
French, W. J. L. (J. B. Steed), Newport, I.W.
Frost, P. J. (N. McLaren), London
Fuller, D. G. M. (F. K. Murfitt), Nelson
Fulton, R. J. (J. S. Lake), London
Fussell, D. C. (H. H. J. Gower), London

Gairdner, M. H. T. (C. L. Woolveridge), London
Galton, R. J. (R. E. Stephenson), Bournemouth
Gambrill, L. G. (H. J. Hoby), Rochester
Gandee, B. E. (L. E. Grimshaw), London
Gardezi, S. I. (G. Finlay), London
Garner, A. A. W. (K. G. N. Card), Hadleigh
Garrett, C. J. W. (M. A. Crick), Peterborough
Garwood, J. (F. G. Foley), London
Gay, I. C. (C. W. Puckett), Torquay

Ghalanos, P. C. (J. Smurthwaite), London
Gibbins, R. C. (M. R. Nathan), London
Gibbs, M. R. (G. W. Pickworth), London
Gibson, P. N. (R. C. Hardy), Manchester
Gilbert, W. S. (I. Engel), Potters Bar
Giles, K. M. (C. H. Pettit), Northampton
Giles Knopp, M. A. (W. A. T. Matheson), London
Gillani, B. N. (C. W. McCormack), London
Gilleran, K. E. (R. Ballantine), London
Gillett, P. L. (J. H. Davies), London
Gilmour, C. M. (Miss) (N. E. West), Littlehampton
Giwa-Osagie, V. O. (G. M. Holroyde), Bradford
Gleave, P. (N. L. R. Trounce), Manchester
Glenton, A. A. E. (A. R. Glenton), Newcastle upon Tyne
Godfrey, H. E. (R. H. Taylor), Bury St Edmunds
Gold, J. D. (G. Middleton), Stanmore
Goldman, A. I. (M. Brief), London
Gooding, P. J. (J. S. H. M. Vereker), London
Goodwin, R. E. O. (E. J. Roff), London
Gore, M. A. (B. W. Vincent), London
Gore, R. T. (B. N. Antoine), Peterborough
Gould, J. R. B. (J. C. Brown), Manchester
Gower, T. E. T. (J. W. W. Mason), London
Graham, D. J. (E. L. Becker), Burnley
Green, H. M. (J. G. Richmond), Sheffield
Green, J. H. (N. Tomblin), Ilkley
Green, P. J. (C. Y. Lloyd), Manchester
Green, P. S. (J. Farley), Bournemouth
Green, R. C. (W. E. G. Kirby), Colchester
Greenberg, A. Z. (E. E. Sander), London
Grey, A. J. A. (M. C. Ainley), London
Grieves, C., London
Griffin, T. A. (V. A. Tudball), London
Griffiths, D. G. (E. C. Sage), Rhyl
Grimstone, I. P. (C. G. Brown), London
Grocock, E. (J. B. Gaskill), Hull
Gronow, J. R. (A. A. Davies), Birmingham
Groseley, R. K. (R. C. Pegg), Cradley Heath
Groves, J. C. (H. G. Sergeant), Hull
Guest, J. A. (G. Classick), Manchester
Gunasekera, N. D. S. (S. F. Homewood), London
Gunn, A. D. S. (A. C. C. Oddie), Bristol
Guyatt, R. E. (W. E. Webber), London
Gwilt, J. S. (B. H. Larkins), Birmingham
Gwyther, H. P. (B. P. Gwyther), Cardiff

Habberton, M. J. (A. E. Limehouse), Rugby
Hadid, F. M. (P. Godfrey), London
Hague, A. N. (J. K. Patrick), Sheffield
Haines, L. C. (J. B. Humphreys), Manchester
Hale, D. B. (P. Cooper), Newcastle upon Tyne
Hale, M. L. (J. P. M. Thompson), London
Haley, P. (G. Pickles), Halifax
Hallowes, G. R. (E. E. Hallam), London
Halpern, D. (A. R. Woolf), London
Hamilton, D. A. (M. L. Grant), London
Hamper, N. D. (B. E. Hill-Cottingham), Brentwood
Hand, A. P. V. (A. L. Blower), Wolverhampton
Haniph, S. Z. D. (J. F. S. Rogers), London
Hannigan, J. C. G. (W. A. Hand), London
Hardie, C. J. M. (J. R. Wells), London
Hare, B. M. (E. W. B. Cotterell), Birmingham
Harkins, T. J. (E. N. Jackson), Derby
Harney, K. (F. Neatham), Warrington
Harriman, D. B. (R. J. Green), Melton Mowbray
Harris, D. J. (R. G. Carter), London
Harris, G. M. (P. Sober), London
Harris, J. D. (H. D. Harris), Coventry
Harrison, D. A. (D. J. T. Corbett), Long Eaton
Harrison, D. J. (O. A. J. Ling), Derby
Hartridge, D. K. (J. B. W. Turner), Windsor
Hartshorn, R. G. (O. Couse), Birmingham
Harvey, A. M. (P. P. Russell), London
Harvey, C. D. H. (S. J. Orman), Bristol
Harvie-Watt, J. (G. C. B. Gidley-Kitchin), London
Harwood, M. (C. J. Finch), St Albans
Hasler, M. F. (E. J. Woodhams), London
Hawkins, M. F. (R. G. Davey), London
Hayden, M. H. (J. R. Adcock), Birmingham
Heathcock, M. J. (H. Hudson), Dudley
Helme, A. J. A. (J. P. Grenside), London
Henderson, C. N. (B. H. Jones), Reading
Henderson, P. (G. Whitehead), Newcastle upon Tyne
Hendriks, I. A. N. (R. W. Brazier), London
Hendy, P. T. (C. V. Best), London
Hennessy, W. A. (J. K. Morgan), London
Henshaw, M. J. (Miss) (T. W. Henshaw), Derby
Herriott, W. G. (R. Philp), London
Hewett, J. C. (C. Middleton), Glasgow
Heywood, D. H. (C. W. Tweedale), Manchester
Hibbins, E. J. (W. V. Meacock), Newport, Mon
Hickman, H. W. (J. W. Isacke), Birmingham
Hicks, J. M. (M. Townend), Goole
Hill, A. A. (F. J. Esnouf), London
Hill, R. J. (A. R. Stacy), London
Hill, T. A. (F. J. Fullerton), Leeds
Hirst, G. W. (R. C. Bassett), Bristol
Hobbs, I. C. (I. W. Frazer), London
Hobday, A. A. (D. N. Williams), Birmingham
Hodgson, D. A. (J. Hodgson), Keighley
Hogan, W. P. (H. L. Fisher), London
Holden, K. (S. A. Gates), London
Holden, R. H. K. (G. E. Morrish), London
Holding, D. R. (J. A. Sandeman Allen), Paignton
Holdsworth, J. L. (H. Battye), Sheffield
Hole, R. C. (C. B. G. Turner), London
Holiday, M. P. (R. W. Foster), Chesterfield
Holloway, C. (W. M. H. Nash), Weston-super-Mare
Holman, R. J. G. (S. S. Morton), London
Holme, J. D. G. (R. L. Emmitt), Sheffield
Holmes, D. L. (R. L. M. Wood), Huddersfield
Hooper, K. S. (W. B. Nelson), Liverpool
Hooper, M. J. (D. L. Cullum), Plymouth
Hopkin-Jones, M. J. E. (T. J. L. Milner), London
Hopkins, A. S. (H. A. Sudell), London
Hopkinson, J. S. F. (H. S. Renton), London
Horobin, J. E. (J. B. Dixon), Middlesbrough
Horrocks, J. T. (A. Holmes), Manchester
Hosier, B. M. (P. D. Smith), London
Hoskins, W. D. (G. A. Coombs), Exeter
Howard, D. B. (A. S. Maddison), Birmingham
Howard, J. A. (R. D. Gregory), London
Howard, P. V. E. (S. J. D. Corsan), London
Howard, R. I. A. (H. F. Dixon), London
Howe, P. W. (V. Matthews), Manchester
Howles, R. P. (C. W. Massey), Birmingham
Howson, L. (D. B. Hirshfield), London
Hubbard, D. V. (W. E. Roberts), Stockport
Hughes, C. P. (R. W. Brazier), London
Hughes, D. K. (formerly with S. V. Turner, deceased), Manchester
Hughes, J. D. P. (R. F. George), London
Huq, M. A. (N. E. Rees), London
Huque, A., Dacca
Hurst, D. G. (A. S. Thorpe), Leicester
Hussain, S. M. (P. Peters), London

Illingworth-Kay, J. K. (D. D. Rae Smith), London
Imber, G. R. (D. H. Hodkin), London
Imrie, M. R. (G. E. Bainbridge), Bradford
Ingmire, D. R. (J. W. Clement), London
Irvine, G. P. J. (W. J. E. Ringquist), Stockton-on-Tees
Isichei, E. A. (A. N. Myers), Cambridge

Jackson, A. K. P. (B. L. Barber), London
Jackson, A. M. (M. R. Landau), London
Jackson, A. R. (P. A. Lewis), Manchester
Jackson, R. M. (R. A. W. Caine), London
Jago, B. F. (F. Binns), Huddersfield
James, D. W. (L. E. Budd), London
James-Moore, R. C. (H. J. Gittoes), Birmingham
Jarrad, M. J. D. (R. V. Fawkner-Corbett), Salisbury
Jefferson, J. A. (H. K. Easton), Birmingham
Jenkins, P. N. R. (C. E. M. Hardie), London
Jenkinson, N. C. (D. H. H. Meacock), London
Jennings, G. B. F. (W. J. Bailey), London
Johns, P. M. (J. D. Nightingirl), London
Johnson, B. W. (H. Evans), London
Johnson, D. A. (S. G. Prime), London
Johnson, N. D. M. (R. A. Etheridge), Southampton
Johnson, R. C. (D. L. Combridge), London
Jolly, P. S. (G. H. Thompson), London
Jones, A. (V. F. Alban), Cardiff
Jones, B. D. (J. A. Horton), Birmingham
Jones, B. P. (J. H. Senior), London
Jones, D. B. M. (C. H. Duff), London
Jones, D. O. R. (W. H. Oury), Slough
Jones, G. L. (D. H. Harding), London
Jones, M. J. (S. J. Orman), Bristol
Jones, M. L. (M. B. Nichols), Bristol
Jones, R. A. (G. W. Coleman), London
Jones, W. D. (P. A. Hayes), Cardiff

Karmali, N. H. (P. G. Wenham), London
Kay, D. G. (W. G. Kay), London
Kay, M. (A. K. Carlyle), Birmingham
Keighley, J. A. (E. R. Bosley), Birmingham
Kelly, C. B. (W. E. R. Short), Liverpool
Kemm, M. J. (J. D. Castleman), Leicester
Kemsley, P. G. (F. K. Berry), Maidstone
Kerman, H. R. (R. W. Brazier), London
Kernick, S. M. (R. D. Edge), Manchester
Kettell, M. F. (J. R. Morgan), High Wycombe
Kettle, T. H. (A. R. Brackenridge), London
Khan, B. A. (J. H. Schotness), London
Khan, M. S. (A. W. Bentley), London
Khan, S. (Miss) (A. G. W. Scott), London
Khawar, M. A. (R. W. Leigh), London
Kidd, J. McA. (D. A. Herbert), London
Kimber, R. G. (I. G. De Mesquita), London
King, A. (C. P. Tiptaft), Mexborough
King, A. D. (R. A. Withey), Bristol
King, G. A. (A. N. Moore), Birmingham
King, J. H. (R. M. M. McLaren), London
King, J. L. (F. D. Jeffries), Walsall
Kingham, J. D. (A. R. Hills), Luton
Kingston, R. M. J. (G. Holroyd), London
Kirkby, D. A. (W. G. Johnson), Manchester
Kirkham, J. D. (W. Kirkham), Sheffield
Kitcher, R. V. (N. E. Bicker), Bournemouth
Kothari, J. P. H. (D. Shor), London
Kraitt, M. S. (S. S. Primost), London
Kremenstein, A. (J. Gardner), London
Kuok, K. H. (A. A. Davis), London

Lake, J. R. (P. R. Taylor), London
Lam, S. S. W. (J. C. Glencross), London
Lamb, A. F. (N. Dunn), Newcastle upon Tyne
Lamb, D. A. (K. H. Glossop), Sheffield
Lambert, A. J. M. (E. R. Bosley), Birmingham
Lambert, J. D. (A. S. Masters), London
Lancaster, J. B. (R. Stokoe), Whitehaven
Lancaster, J. D. (J. P. Clayton), London
Lane, M. W. (F. C. Roy), Worcester
Langdon, R. M. (J. D. C. Stone), London
Langton, J. (A. G. Conder), London
Laughton, G. M. (A. J. Penn), Northampton
Law, R. C. (A. G. Hirst), Liverpool
Lawler, T. P. (C. B. Rae), Bradford
Layade, P. S. A. (R. L. Elliott), Whitley Bay
Layzell, M. E. (H. W. Fisher), London
Lea, J. E. (P. W. Beale), Brighton
Leach, D. (E. I. Reynard), Nelson
Leader, I. T. (A. S. Watson), Southampton
Leathwood, M. R. (J. H. A. Coward), London
Leavy, R. J. (K. D. F. Guyton), Letchworth
Ledger, M. S. (G. Woolfe), Manchester
Lee, A. J. E. (C. Wheatley), Birmingham
Lee, G. C. (F. W. L. Phillips), Chatham
Lee, H. S. (Miss) (C. J. Maurice), London
Leeke, G. L. (J. R. C. Weber), Cardiff
Leopard, R. A. (H. J. H. Leopard), Worcester
Lester, B. (S. A. Shalet), Southend-on-Sea
Levy, A. A. (R. J. Carpenter), London
Lewis, D. J. (E. J. Garner), Nuneaton
Lewis, M. W. L. (S. G. Sillem), London
Lilley, S. F. (L. P. Gibbs), London
Lindsay-German, J. L. (W. P. Hughes), London
Link, C. R. S. (Sir Wentworth Rowland), London
Linnert, J. J. (E. A. Savage), Bristol
Littlejohn, I. J. (G. Magnay), Newcastle upon Tyne
Littlewood, G. (R. G. Whittington), London
Littmoden, C. (R. H. Jenkins), London
Livesey, G. R. (C. P. Twemlow), Crewe
Livesey, J. M. (T. E. Entwistle), Liverpool
Livingston, J. (D. B. Ward), Newcastle upon Tyne
Lloyd, D. W. (J. G. Powell), Swansea
Lloyd, J. C. (F. C. P. Shears), London
Lloyd, R. L. (S. V. Lancaster), Birmingham
Lobbenberg, J. P. M. (G. F. Ansell), London
Long-Leather, C. (J. W. Margetts), London
Lord, G. (A. R. Collinge), Bacup
Love, A. M. (J. H. Sisson), London
Lowcock, R. W. (D. W. Robinson), Barnoldswick
Lowden, P. R. (K. W. Clark), Reading

Lugg, R. B. (G. R. Appleyard), London
Lyndon, L. S. (D. H. Harker), London
Lynn, G. J. (B. J. C. Buckle), Southampton

McAuslan, R. M. B. (A. W. Sarson), London
McDougall, H. J. A. (G. C. B. Gidley-Kitchin), London
McGee, K. E. (C. D. Bolsover), Sheffield
McGlogan, J. (M. E. Roberts), Dewsbury
McKenzie, B. (P. F. Rogers), Liverpool
McKenzie, K. (A. j. Gray, Jun.), Sunderland
MacLachlan, J. R. B. (D. N. M. Jones), London
MacMillan, J. E. (I. O. MacLeod), Birmingham
MacMillan, T. J. (J. M. Hunt), Lincoln
Madders, R. M. (Miss) (A. D. L. Thomas), Norwich
Magee, N. J. (N. H. Davis), London
Magoon, M. W. (L. A. Periton), London
Main, A. F. (C. A. Pocock), London
Main, A. H. (O. M. Lewin), London
Main, M. J. (R. O. Robinson), London
Malcolm, A. J. (J. R. Hamilton), London
Malde, A. K. N. (M. Apple), London
Mann, G. S. (B. Andrews), Bradford
Manning, G. R. (J. G. S. Longcroft), London
Manthorpe, N. S. (H. Robinson), Norwich
Manzi, T. J. (H. B. Brailsford), London
Marchant, D. G. (S. W. Woodruff), Brighton
Margetts, P. (F. Jeffery), Derby
Marr, R. B. (I. C. Storey), South Shields
Marriner, N. H. (B. H. Armitage), Leeds
Marshall, A. J. (K. G. M. Harding), Liverpool
Marshall, D. E. (J. K. MacDonald), London
Marshall, R. C. (L. H. Norman), London
Martin-Jenkins, D. D. (D. G. Richards), London
Mason, J. P. F. (C. H. Sutton), Norwich
Masters, D. R. (J. O. M. Williams), Cardiff
Matthews, H. N. (J. T. Corbett), London
May, B. C. (J. Mearns), London
Mayes, P. R. (G. C. Peat), London
Mbanefo, U. (R. F. Sumner), London
Medora, J. K. (N. Davies), London
Mellor, D. L. (P. I. Addison), Birmingham
Metcalfe, P. J. C. (C. E. McLay), Cardiff
Middleton, A. R. (A. Whittaker), Sunderland
Middleton, H. J. (C. M. Powell), London
Milbourn, J. G. (H. W. Bankes), Liverpool
Mills, A. F. (C. F. Dashwood), London
Mills, M. J. M. (G. Carew-Jones), London
Mills, R. J. (L. J. Pratley), London
Milne, I. H. M. (H. S. Rose), London
Milne, R. M. (C. N. Smellie), London
Milner, P. N. (J. L. Kitching), Leeds
Milton, M. R. (A. D. Blount), Leicester
Minns, H. J. F. (J. E. Critchley), Oxford
Moffat, D. C. (T. D. Kelly), Warwick
Mondin, B. L. (N. M. Askwith), London
Moodie, D. I. P. (W. E. H. Handley), Tunbridge Wells
Moody, A. G. (H. Hebblethwaite), Sheffield
Moore, A. P. (C. P. Perriam), Barnstaple
Moore, C. B. G., Stafford
Moore, C. G. (W. J. Dymott), London
Moorhouse, P. A. (G. Lees), Doncaster
Morgan, I. D. (K. B. Bristow), London
Morris, A. D. (N. H. Russell), London
Morrison-Jones, R. D. (H. G. P. Greenwood), London
Morton, K. J. (S. M. Duncan), London
Mosley, J. R. (R. M. Chapman), South Shields
Moss, M. C. (K. V. R. Heaven), Birmingham
Mower, B. (B. R. Cahill), Leeds
Muddiman, B. P. (W. Proctor), Barrow-in-Furness
Munford, T. G. D. (M. Howson-Green), Southampton
Munjee, Y. (E. J. Rogers), London
Murphy, P. F. (K. H. Oates), London
Murphy, V. M. (F. E. Rowland), London
Murray, J. D. (E. B. Costello), London
Muspratt, I. D. (D. F. Thornton-Smith), London
Muston, M. J. (J. F. Doleman), Leicester
Myint, M. K. (T. J. Newman), London
Mynors, R. D. B. (G. H. Vieler), London

Nagle, R. J. (M. R. Nathan), London
Nair, V. (J. C. Smethers), London
Narracott, M. J. (W. J. Germing), London
Naylor, K. P. (G. G. Wilson), Leeds
Neil, A. D. (T. G. Threlford), London
Neild, F. J. (A. C. Falkner), London
Nelmes, C. M. (Miss) (P. W. Foston), Derby
Nelson, G. A. (A. Barker), Leeds
Nelson, R. C. (A. G. B. Burney), London
Nelson, R. S. (A. E. Burton), London
Newland, P. J. (M. G. H. Spencer), Birmingham
Newman, A. P. (M. A. Bennett), London
Newman, M. J. (N. Brett), London
Nicklin, P. G. (C. F. M. Hawkins), Bristol
Nixon, A. F. (J. J. Longland), Portsmouth
Nock, T. S. (W. E. Dewdney), Bristol
Noë, R. (R. A. Douglas), Manchester
Nordemann, D. (F. Pepper), Croydon
Northcroft, D. (J. W. Margetts), London
Nunes, E. J., Trinidad
Nunnington, C. (K. C. Cook), Liverpool

Oakley, P. J. (R. J. Parker), Aylesbury
Oatridge, W. E. R. (A. W. Dawson), Preston
O'Brien, G. (W. G. Jones), Llanelly
O'Donnell, J. K. (L. A. I. Deane), London
Ogden, K. (J. Hazlitt), Manchester
Okoh, G. V. (K. C. Taylor), London
Omidiora, J. O. (W. A. Byars), London
Ong, C. H. (N. Freeman), London
Oppenheimer, R. M. (M. Harris), London
Orange, C. W. (J. P. Grenside), London
Osagie, A. B. (W. E. Whitwell), Kendal
Osatch, I. (A. A. Davis), London
Osenton, D. S. (F. K. Berry), Maidstone
Osman, A. A. (M. Farmer), London
Owen, A. J. (D. H. D. Freeman), London

Page, A. E. F. (J. H. Banfield), London
Page, A. J. E. (P. M. Harding), Leicester
Pal, R. (B. M. Parrott), Uxbridge
Palmer, T. M. (L. A. Fudge), Bath
Pangbourne, R. B. (A. D. Inglis), London
Parikh, G. B. P. (S. E. Newman), London
Parish, B. T. (W. H. Morton), London
Parker, C. J. (A. E. Scott), London
Parkin, S. B. (W. A. Hickling), Nottingham
Parry, R. (F. B. M. Wawn), Manchester
Parry, R. H. (E. A. Dent), Cambridge
Parsons, O. T. (G. F. Huff), London
Patel, A. K. (S. E. Newman), London
Paterson, R. S. (W. J. Brereton), London
Pattison, G. F. (J. S. A. Peffers), Newcastle upon Tyne
Pearce, G. J. (J. S. Sutton), Birmingham
Pearce, J. B. N. M. (Sir Wentworth Rowland), London
Pearson, R. J. C. (J. C. Howard), London
Peat, J. P. N. (N. McLaren), London
Pedder, R. V. (F. J. Hammond), London
Peedell, I. R. (S. E. Clark), Oxford
Peel, M. S. (E. N. Jacobs), London
Pendrill, D. (F. E. Antill), London
Pennington, J. (J. H. Bradley), Liverpool
Pepper, E. M. H. (R. H. MacIntyre), London
Perkins, R. C. (D. J. Appleton), Birmingham
Peters, D. W. (W. R. V. Searle), London
Peters, R. W. (A. J. Seal), Hounslow
Phillips, K. (P. Brook), Bradford
Phillips, P. (S. J. D. Corsan), London
Pickering, D. O. (N. Johnson), Chester
Pink, J. A. (Mrs) (L. Harrison), London
Pinnington, K. T. H. (J. M. Harvey), Liverpool
Plant, J. L. (Miss) (R. P. Allsop), Birmingham
Platt, M. (J. M. Farraday), Bury
Platt, R. D. (M. Sheppard), Maidenhead
Pointon, J. W. (P. E. Bower), Manchester
Ponsonby, M. F. L. (J. D. Russell), London
Pope, D. R. (R. C. Bennett), Bristol
Posner, M. M. (S. L. Hirst), London
Potter, P. T. (E. Bell), Leicester
Potts, I. W. (K. Campbell), Liverpool
Pountney, M. H. (R. H. Ashcroft), London
Pow, D. F. (E. Richmond), London
Powell, J. E. (A. W. Hooker), Newton Abbot
Pratt, C. H. (J. P. Odgen), London
Prebble, B. (D. C. Don), London
Precious, J. R. (C. P. Barrowcliff), Middlesbrough
Preston, M. E. (H. A. Snelling), London
Prevett, J. E. G. (L. M. G. Harris), London
Price, T. G. (J. E. K. Clarke), London
Pritchard, D. A. (J. Portergill), Banbury
Pritchett, N. (R. H. Wall), Birmingham
Pumfrey, A. A. H. (F. W. English), London
Pym, K. T. (J. A. Heacock), Birmingham

Quinn, F. W. (R. Lovely), Newcastle upon Tyne
Quy, D. G. (M. H. J. Thorne), London

Radford, R. M. (B. R. Hartley), Nottingham
Raman, K. (N. C. R. Nash), London
Rankine, J. W. (S. Badrock), Manchester
Rashid, P. (C. Metliss), London
Rastall, W. G. (A. P. L. James), Chepstow
Rawes, G. R. (J. A. Deed), London
Ray, D. (M. Benjamin), London
Ray, R. K. (A. B. Joseph), London
Read, R. N. (D. T. Veale), Leeds
Reddington, P. (F. Light), Manchester
Redford, P. N. (P. H. Benedict), London
Reed, G. C. (M. C. Faircliff), London
Rees, D. M. (K. Aves), Hatfield
Rees, G. T. (E. T. Shepherd), Cardiff
Rhodes, J. F. (G. Isles), Bradford
Richardson, J. (L. M. Keen), Southend-on-Sea
Rickus, K. (J. R. P. Broadhouse), West Bromwich
Ridge, P. (W. W. Bigg), London
Ridley, R. R. R. (D. J. Calder), London
Ritchie, A. P. (C. J. Robinson), London
Roach, W. G. D. (H. Rivington), Leicester
Robertson, J. D. (W. T. Tanser), Leicester
Robinson, J. L. (G. B. Jones), Evesham
Robinson, R. W. (E. O. Frank), Lewes
Robinson, T. M. (W. W. Powell), Leeds
Robson, G. J. (J. Willey), Newcastle upon Tyne
Robson, N. J. B. (R. Winn), Newcastle upon Tyne
Rockberger, M. (W. R. Malvern), London
Rogers, K. A. (F. L. Wyatt), Manchester
Roper, A. R. (L. A. Pollard), Bournemouth
Rose, J. S. (S. S. Primost), London
Rossell, G. H. (F. P. Roker), Swanage
Rounthwaite, F. A. (G. N. Taylor), Newcastle upon Tyne
Rowlands, D. G. (P. Slater), Southport
Rowlett, R. A. (R. Cullen), Leicester
Rowley, M. J. (G. W. Dunkerley), London
Ruddy, J. M. (A. E. Lacon), Wolverhampton
Runacres, P. G. (F. R. Strover), London
Russell, J. E. (D. F. Wadge), Newcastle upon Tyne
Ryan, F. D. (A. L. Rowles), London

Saffer, H. (R. E. Stephenson), Bournemouth
Saha, N. N. (A. B. Joseph), London
Saich, A. J. (R. C. Munday), London
Sainsbury, J. P. (C. P. Pascoe), Cardiff
Sale, D. C. (L. Parker), London
Sammons, C. B. (Mrs) (F. Warren), Camborne
Sammons, G. E. G. (H. R. Hands), Birmingham
Sample, J. W. (J. B. Dixon), Middlesbrough
Sandison, C. R. (H. J. H. Leopard), Worcester
Sands, J. (G. B. Hodson), Liverpool
Sankey, W. A. (T. H. Bell), Manchester
Sansom, A. J. (T. H. Pawley), London
Sargent, M. E. (J. J. Wrench), London
Sargent, M. G. (J. W. Hawkins), Normanton
Sattar, M. A. (R. E. Hawkes), London
Saunders, D. M. J. (D. A. Clarke), London
Saunders, S. F. (G. H. Hovey), London
Savery, J. W. (A. Shaw), Bristol
Savva, A., London
Savvidis, S. C. (R. S. Boddington), Manchester
Scargill, O. L. (E. Hudson), Middlesbrough
Scott, C. A. (J. C. Bishop), Hastings
Scott, I. P. (J. S. Freeborough), London
Scott, P. N. (H. T. Scothorne), Nottingham
Sebire, D. J. (D. R. Clack), London
Seepersad, H. (W. E. Roe), Newport, Mon
Sefton, D. (C. M. Luck-Hille), London
Sellors, M. W. (W. S. Eccles), Manchester
Selman, R. M. (S. M. Marks), London
Sethna, R. (T. C. Peat), London
Sewell, S. J. (R. G. Kirkpatrick), London
Seymour, A. E. (F. H. Taylor), London
Shah, A. G. S. (R. Gold), London
Shah, M. K. S. (D. M. Parkes), Bristol
Sharma, J. K. K. C. S. (B. Trent), London
Sharp, C. (Sir William Carrington), London
Sharpe, G. V. J. (E. S. D. Bavin), London
Shaw, D. (D. W. Kilsby), London
Shaw, D. A. (D. R. Huntingford), London
Shaw, G. T. (R. V. Freds), Beckenham
Shaw, J. H. (H. Shaw), Normanton

Shaw, R. B. (W. B. James), Birmingham
Shea, K. P. (A. Rigby), Manchester
Sherratt, A. J. (F. A. Walker), Birmingham
Shetly, D. L. (L. P. Gibbs), London
Shields, J. M. (R. Kirk), Hull
Short, P. (A. S. Rigby), Chorley
Shrubsole, R. M. (E. B. Palmer), London
Shulman, M. A. (M. S. Josephs), London
Siddall, P. J. (W. S. Green), Stoke-on-Trent
Siddiqi, S. H. (J. C. Wheeler), London
Silverton, D. A. (E. R. Hyett), London
Silvester, F. S. (P. G. S. Kiely), Reading
Silvey, D. C. (T. D. Allen), Bristol
Simmonds, G. M. (S. Cohen), London
Simmonds, S. (C. S. Raine), London
Simons, R. F. (D. G. Williams), Sutton
Simpson, D. H. (B. A. Jones), Manchester
Simpson, L. (T. C. Shiner), Grays
Sinclair, G. M. R. G. (F. W. English), London
Singh, M. S. (R. A. Daniels), London
Singleton, H. V. (Miss) (A. Salter), Cardiff
Skerry, J. H. (W. J. L. Clarke), London
Slingsby, A. G. (J. A. Freeman), Bury
Slingsby, J. (W. R. F. Boulby), Retford
Sloan, P. (R. S. Davis), Manchester
Smart, D. M. (P. J. Burgess), Reading
Smart, R. A. (M. W. Rosser), Swansea
Smedley, I. F. (J. B. Allen), Coventry
Smith, A. (N. W. Peeling), Manchester
Smith, D. A. (A. E. Smith), Doncaster
Smith, D. C. (L. W. Moscrop), London
Smith, K. E. (W. G. Ponter), Birmingham
Smith, M. (I. D. Nelson), Sunderland
Smith, M. W. G. (R. Ward), Sheffield
Smith, P. D. (A. L. Morell), Nottingham
Smith, P. G. (T. McDonald), Leeds
Smith, R. G. (H. J. Waugh), Hereford
Smith, R. M. (W. T. Hunter), Maidstone
Smith, R. M. (G. R. Eaton), Leicester
Smith, T. R. (E. J. M. Bramley), Burton-on-Trent
Smith, V. C. (H. F. Dauncey), London
Snape, C. N. (M. H. Leese), Manchester
Specter, D. (H. M. Newman), Edgware
Spencer, P. J. (S. R. Heasman), London
Spencer, T. J. (F. Johnson), Ashby de la Zouch
Spiropulos, C. O. (F. S. Young), London
Squire, R. C. (M. A. P. Gay), London
Stafford, R. F. J. (R. N. Blake), Bristol
Stanyard, R. J. (G. F. Tomlin), Coalville
Stapleton, C. G. (C. E. Surman), London
Starnes, R. J. (N. E. West), Littlehampton
Statham, J. E. A. (J. D. Hamer), Manchester
Stead, R. (formerly with W. H. H. Hutchinson, deceased), Hull
Steggals, R. J. (P. E. Heywood), London
Stephens, C. J. D. (W. B. S. Walker), London
Stephens, N. M. (L. D. Morse), London
Stevens, M. C. (R. G. Millard), Taunton
Stevens, W. P. (R. F. Hannam), Cardiff
Stevenson, R. F. (D. H. Cantrell), London
Stewart, J. H. S. (P. E. Heywood), London
Stocks, R. A. (J. H. Sterland), Cambridge
Stoneman, F. D. (T. E. Swancott), London
Stoneman, P. J. (Miss B. I. Rainey), London
Storrie, C. J. (G. B. Watson), Oxford
Strafford, J. E. (J. H. M. Flew), London
Sturmey, C. J. (A. A. Veasey), Leicester
Sullivan, J. G. M. (E. A. W. Gisby), London
Summers, T. (J. B. Watling), Bristol
Supran, J. M. (W. H. Land), London
Sutcliffe, M. A. (T. L. Plewman), Leicester
Sutherland, A. G. (R. F. Cheesman), London
Swaffield, P. A. (J. B. Watling), Bristol
Swallow, C. A. (G. E. Hill), Birmingham
Sweeney, C. J. (I. F. D. Hill), Liverpool
Sweet, R. H. McM. (B. W. Graves), London
Sykes, J. R. C. (P. C. Cardno), Bradford

Tagent, M. E. (E. W. G. Joicey-Cecil), London
Talbot, E. A. (W. F. Hague), London
Targett, P. B. (J. D. Beck), Birmingham
Tarrant, M. F. (D. V. Hinkley), London
Taylor, A. B. K. (R. Dunn), Leicester
Taylor, A. C. (G. H. W. Delderfield), London
Taylor, B. K. (J. P. Farrar), Bury
Taylor, C. H. J. A. (C. C. L. Randall), London
Taylor, D. T. R. (K. Wilson), London
Taylor, G. L. (W. B. Nelson), Liverpool
Taylor, I. C. (J. H. Davies), London
Taylor, N. F. (A. Scattergood), Liverpool
Taylor, P. M. M. (R. Bentley), Southampton
Taylor, R. (J. Lamb), Newcastle upon Tyne
Taylor, S. A. (J. Palmer), Hull
Taylor, V. D. (A. K. Walton), Bradford
Templeton, R. I. (T. D. Carnwath), Manchester
Tennant, R. J. (S. J. Clark), Southampton
Tenn-Lyn, E. J. (H. G. Daniels), Redhill
Tett, D. F. (W. Saxelby), London
Thistlethwaite, J. (T. Whittam), Colne
Thomas, H. B. (L. Gibson), London
Thomas, J. R. (L. C. Poley), Cardiff
Thomas, P. (L. O'B. Deacon), London
Thomas, R. H. (G. G. Boxall), London
Thwaites, J. B. (J. Mitchinson), Maryport
Tiley, J. S. (B. E. Pearcy), London
Tollerton, R. (I. G. Highley), Reading
Tolley, F. C. (G. H. Smith), Bradford
Toosey, N. D. (S. Morris), Liverpool
Torns, R. N. (J. G. Pannaman), London
Totman, M. A. (S. Brown), London
Townsend, E. C. (F. V. Sinden), London
Toye, R. W. C. (H. F. Mathews), London
Travis, R. A. (Sir Henry Benson), London
Trory, M. E. (R. E. Goddard), Brighton
Tuckey, R. (D. H. C. Tonks), Birmingham
Tudor-Evans, E. S. (H. Peat), London
Tuley, R. J. (A. T. Burn), Worthing
Turland, P. H. (D. C. Thurgood), Watford
Turnbull, J. D. (S. J. D. Corsan), London
Turner, A. R. (J. B. Longbottom), Harrogate
Turner, C. M. G. (L. H. Clark), London
Turner, G. M. (G. A. Thomas), London
Tyrrell, J. M. (J. Perfect), London

Uchegbu, A. (A. T. Dowd), Manchester
Underhill, H. J. (R. H. Parsons), Eastbourne
Underwood, M. R. (H. Robinson), Norwich

Vale, D. W. (R. Philp), London
Vardon, J. L. (R. S. A. Donnithorne), London
Varney, K. B. (A. W. Hooker), Newton Abbot
Vasi, H. H. (I. G. Miller), Cardiff
Vaughan, R. C. (R. Radford), Leicester
Vause, A. H. (K. J. Hall), Rugby
Vincent, N. (H. W. Bagge), London
Vincent, R. G. (G. G. Neal), London
Vinter, B. M. (D. G. Richards), London
Voss, M. L. (B. D. Scott), Birmingham

Waddington, R. (N. L. R. Trounce), Manchester
Wake, N. S. (F. W. Finley), Glastonbury
Wakefield, T. F. (A. Bush), Nottingham
Waldren, A. R. (C. B. Newcomb), London
Walker, G. (N. D. Taylor), Sheffield
Wallis, A. L. (G. A. Cherry), London
Walls, B. L. (R. J. Howling), London
Walsh, M. E. (Miss) (J. Blane), Blackpool
Walton, C. G. (A. F. B. Ham), Bristol
Walton, N. (C. P. Barrowcliff), Middlesbrough
Warham, D. H. (S. A. Middleton), Newcastle upon Tyne
Warner, D. M. (E. J. M. Bramley), Derby
Warner, J. M. (H. D. Hewines), Walsall
Warren, J. W. (J. H. Ross), London
Warrener, A. M. (J. P. Blows), London
Watchman, C. M. (R. H. Cromarty), Nottingham
Waterfield, K. J. (R. Sutcliffe), Peterborough
Watkins, K. (C. Wales), Lydney
Watkins, T. (E. Buxton), Stoke-on-Trent
Watson, J. H. (R. J. Savage), Worcester
Wattis, D. J. (J. F. Swindell), Birmingham
Watts, C. M. (E. C. Howie), Newcastle upon Tyne
Watts, P. M. (J. L. Jefferys), Cambridge
Waud, C. G. (D. A. Clarke), London
Wayte, K. (T. H. Douglas), Sunderland
Weaver, G. (O. A. J. Ling), Derby
Webb, Z. P. H. (J. W. Isacke), Birmingham
Weber, P. A. (H. Arbeid), London
Webster, R. A. (H. W. Bagge), London
Weigert, E. C. (H. P. Green), London
Weightman, G. M. (W. R. Bralesford), Nottingham
Welch, J. E. F. (R. L. B. Guettier), London
Welham, C. R. (R. J. H. Eagle), London
Wells, D. G. (J. V. Morris), London
Wells, V. I. (J. F. Taylor), London
West, J. V. C. (G. S. Crookes), London
Westhead, D. R. (R. A. Douglas), Manchester
Westlake, I. M. (T. A. V. Sutton), Stockport
Weston, D. J. (G. D. Frost), Farnham
Whalley, A. (D. R. B. Smith), London
Whatmore, R. T. C. (R. G. Leach), London
Wheadon, A. C. (R. L. Jones), London
White, C. T. (K. Sankey), Coventry
White, N. H. (W. H. Coltman), Durham City
White Jones, D. (J. R. Paramour), London
Whitfield, P. S. (H. G. M. Leighton), Bristol
Whitfield, W. G. T. (W. A. Shaw), Leeds
Whittaker, C. D. (P. W. Hort), Bristol
Whittaker, D. N. (H. D. Anthony), London
Whittaker, P. T. (P. Williams), Huddersfield
Whittingham, R. A. (K. H. Gibbons), Bristol
Wickert, B. (R. W. Gorman), London
Wilford, D. M. (B. C. Cornes), London
Wilkinson, A. J. (C. G. Hayes), London
Wilkinson, R. A. (D. W. Eckersley), Manchester
Wilkinson, R. C. (R. A. Barsham), London
Willems, M. E. de la T. (L. C. Coe), London
Williams, D. N. (H. J. Sargeant), West Hartlepool
Williams, D. R. (The Hon. J. W. Remnant), London
Williams, E. O. F. (F. A. Noble), Liverpool
Williams, E. W. (N. D. B. Robinson), Manchester
Williams, G. G. (J. Godfrey), London
Williams, P. J. (A. C. Brading), Exeter
Williams, R. G. (E. C. Archer), Coventry
Williams, S. K. M. (R. G. Main), London
Williams, T. J. (A. W. C. Lyddon), Plymouth
Williamson, I. G. McP. (W. F. Baines), London
Williamson, M. J. (T. G. Harding), London
Wilmot, D. K. (E. G. Lambard), London
Wilson, G. (E. Sugden), Leeds
Wilson, J. (A. Holmes), Manchester
Wilson, K. A. (J. H. Girdwood), London
Wilson, R. (H. W. Pople), Liverpool
Wilson, R. (M. S. King), London
Wilson, R. B. (F. G. Rollason), London
Wiltshire, T. G. (F. J. W. Hodgson), Plymouth
Winchester, A. J. (C. B. G. Turner), London
Winckworth, A. J. (M. F. Moore), London
Windley, R. H. (C. B. G. Turner), London
Winter, R. L. (J. Rampton), Reading
Wisdom, M. A. (W. G. Brookes), London
Wiseman, A. J. (E. C. Malyon), London
Wiseman, M. C. (P. P. Russell), London
Wong, K. L. (H. J. H. Greenacre), London
Wood, G. J. (F. C. Nelson), London
Woodgate, R. M (W. L. Barrows), Birmingham
Woods, D. (R. A. Wood), London
Woodward, A. E. (B. J. Dore), Oxford
Woodward, M. V. (W. A. Dodd), Manchester
Wright, J. (C. W. H. Morton), Nottingham
Wright, K. (R. C. Munday), London
Wylie, P. (M. J. Kirby), Coventry

Yates, A. J. (J. C. Lees), Birmingham
Yeow, K. Y. (R. E. Barham), London
Yeung, W. C-Y. (J. Altman), London
Young, C. J. (D. M. D. Raper), London
Young, T. W. K. (V. D. Wykes), London

Zachariou, V. P. (R. H. Ashcroft), London
Zafar, S-U. (D. G. T. Crabbe), Birmingham
Zampelas, M. H. (C. B. Edwards), London
Zive, I. H. (D. S. Lewis), London

FINAL EXAMINATION (New Syllabus)

Order of Merit and Prizes

PART I

First Place in Order of Merit, the Robert Fletcher Prize, the Roger N. Carter Prize and the Deloitte-Plender Prize for the paper on Taxation I
Best, Roger George (A. M. Cooper), Yeovil

Second Place in Order of Merit, the Walter Knox Scholarship and the Deloitte-Plender Prize for the paper on English Law II
Boyd, Robert Ian Walter (C. V. Best), London

Third Place in Order of Merit, the O. C. Railton Prize and the Deloitte-Plender Prize for the paper on English Law I
Towers, Alan Victor (O. B. T. Bennett), Oxford

Fourth Place in Order of Merit
Endicott, Peter (R. Phelps), Bristol

Deloitte-Plender Prize for the paper on Advanced Accounting I
Roth, Brian Stuart (P. C. Susskind), London
Tomlinson, Peter (G. W. Currie), Blackpool

PART II

The following prizes have been awarded:

The Howitt Prize and the Deloitte-Plender Prize for the paper on Advanced Accounting III
Withers, Stuart Henry (E. D. Cox), Birmingham

The Leo. T. Little Prize and the Deloitte-Plender Prize for the General Paper
Atkinson, Keith Melvyn (G. E. Morrish), London

The Roger N. Carter Prize and the Deloitte-Plender Prize for the paper on Taxation II
O'Neil, Peter Claude (G. G. Dickinson), Sheffield

LIST OF SUCCESSFUL CANDIDATES

The name shown in brackets is the name of the principal to whom the clerk has been articled. The following candidates have completed the examination by passing in the Part or Parts for which they had presented themselves:

Atkinson, K. M. (G. E. Morrish), London
Beckh, R. L. (W. G. Allen), London
Cropper, J. A. (C. Collett), Newcastle upon Tyne
Dubois, R. (A. N. Chapman), London
Edwards, P. F. W. (B. D. Beeston), London
Fielden, J. (J. R. Wells), London
Filer, D. R. (T. Hoffman), London
Johnson, P. (G. D. Cucksey), London
Kemm, H. E. (G. D. Paterson), Manchester
Kilmartin, A. R. (G. B. Judd), London
Lester, R. A. (N. G. Bascombe), Bristol
Meese-Kennedy, S. F. (M. F. Andrews), Bristol
O'Neil, P. C. (G. G. Dickinson), Sheffield
Pitman, G. W. (J. L. Mawhood), London
Quaile, P. N. (T. J. Harrison), Liverpool
Rajani, R. H. (R. C. Shelley), London
Reville, M. P. (N. G. Bascombe), Bristol
Sharman, C. M. (P. R. Taylor), London
Singh, S. S. (T. M. Pragnell), Nottingham
Smith, P. J. (C. M. Anstead), London
Strover, A. M. (R. G. Leach), London
Thomas, C. (F. E. Corbin), London
Thorburn, I. G. (T. R. T. Bucknill), London
Wardley, D. (H. Titterton), Stockport
Withers, S. H. (E. D. Cox), Birmingham

The following candidates have passed **PART I** of the examination:

Adetona, A. R. (N. C. Elliott), London
Agbebiyi, H. A. (W. R. McBrien), Hastings
Alam, C. M. (G. J. Spencer), London
Aldous, B. R. (R. H. Taylor), Bury St Edmunds
Ali, V. (J. J. Nunes Vaz), London
Allchurch, J. A. (R. A. Folland), Birmingham
Allen, K. N. (G. W. Dunkerley), London
Allen, R. M. (J. G. Harper), Guildford
Allison, D. I. (F. J. Fullerton), Leeds
Almond, D. W. (B. A. Churchill), London
Almond, G. J. (C. A. Bartlett), London
Anning, E. S. (D. L. Cullum), Plymouth
Andrews, D. N. M. (T. R. Watts), London
Anslow, D. K. (A. H. Chapman), London
Appleton, J. (A. W. Brooking), Basingstoke
Arch, M. O. (T. G. Gobat), Hereford
Arif, M. (D. Rose), London
Arnold, J. A. (D. F. Webster), New Malden
Ashcroft-Hawley, B. V. (C. A. J. Peplow), Newton Abbot
Ashford, N. G. N. (E. A. C. Jones), London
Ashmore, D. G. (E. J. J. Booy), Cardiff
Aspinall, D. C. (P. G. Livesey), Manchester
Astin, C. D. C. (T. Taylor), Llandudno
Atkinson, A. H. G. (D. L. Evans), London
Auger, P. W. (W. C. Peatey), High Wycombe
Austin, T. N. (J. Rowlandson), Swansea
Aylwin, N. C. (F. G. Rollason), London

Bacon, R. W. (N. F. Stanley), Romford
Bailey, F. E. (E. H. Illingworth), Huddersfield
Baker, P. C. (E. E. Maltby), London
Ball, C. J. (P. Clarke), Bolton
Balme, F. J. (G. D. Verity), Bradford
Banham, E. A. (J. W. Pickard), London
Banks, A. J. G. (J. T. Corbett), London
Banks, R. D. W. (J. A. Laverack), Lincoln
Bannister, M. B. (R. H. Stewart), Manchester
Barnes, J. P. (C. E. West), London
Barnet, B. (P. F. Friend-James), Brighton
Barrett, A. T. (H. Gordon), Bristol
Barrett, M. (R. D. Thomlinson), Carlisle
Barry, S. J. (P. A. Hipps), London
Bartarya, S. N. (J. Mayhew-Sanders), London
Barton, J. C. (D. J. Fairhurst), Wigan
Batt, M. S. (C. H. Maggs), Bristol
Beauprez, J. R. L. (W. A. T. Matheson), London
Beauprez, R. J. (J. P. Ogden), London
Beech, W. (K. B. Clark), Sheffield
Beeching, G. A. (A. C. Durrant), Tonbridge
Bejide, E. O. (C. Pegg), London
Bell, D. (C. A. Noy), Nottingham
Benjamin, P. A. (W. A. T. Matheson), London
Bennett, G. (R. W. Cox), Long Eaton
Bennewith, A. J. (A. N. Gillman), London
Bentley, B. M. (F. H. Cropp), London
Bernstein, G. (M. Gordon), London
Berry, J. (S. M. Duncan), London
Best, R. G. (A. M. Cooper), Yeovil
Beswick, G. J. (H. Keate), Manchester
Bettinson, D. J. (W. Parker), Birmingham
Biggs, T. L. M. (W. C. Cull), Southampton
Birnbaum, D. M. (S. M. Marks), London
Bishop, J. M. (K. M. Eames), Bournemouth
Black, M. A. (S. Morris), Reading
Blackett, A. D. (Sir Thomas Robson), London
Blake, P. R. (B. E. Basden), London
Bloch, A. G. (G. P. Levy), London
Blythin, R. C. (G. S. Jackman), Chester
Boote, G. W. A. (R. C. Bladen), Stoke-on-Trent
Boothroyd, P. (E. Sykes), Manchester
Bostock, R. (G. H. Hovey), London
Bothamley, B. M. (T. G. Rimington), Leicester
Bourne, A. C. A. (R. E. Warlow), London
Bowden, D. L. (E. S. Prince), London
Bowman, G. R. (W. S. Tate), Newcastle upon Tyne
Bowyer, G. E. W. (R. W. Mason), London
Boyd, R. I. W. (C. V. Best), London
Brace, A. J. (B. J. Herring), London
Braganza, K. E. (C. F. Earnshaw), Nantwich
Braganza, M. A. (J. J. Nunes Vaz), London
Bressey, S. C. R. (M. F. Moore), London
Briscoe, G. H. (J. M. Hunt), Lincoln
Britton, D. J. (T. E. Caro), Manchester
Broadhead, M. R. (R. V. Garton), Huddersfield
Brooks, B. (J. H. Sisson), London
Broster, J. A. (J. D. Murphy), Watford
Brown, A. E. (H. L. Simpson), Huddersfield
Brown, I. (I. P. Jaffe), Manchester
Brown, J. A. S. (H. P. Green), London
Brown, J. D. (E. W. Evans), Coventry
Brown, P. T. (A. Rothburn), Manchester
Brown, R. G. C. (E. C. Graham), London
Brown, R. J. B., Middlesbrough
Brownlie, M. P. (G. W. M. Phillips), London
Brownstein, I. J. (J. J. Nunes Vaz), London
Brumwell, R. A. (C. J. Holliday), Stroud
Brun, P. E. C. (B. F. Emmerson), London
Buckley, R. A. (S. F. Phillips), London
Bull, T. (Mrs) (C. L. Wykes), Leicester
Burgon, R. S. F. (R. M. Simpson), London
Burns, B. F. (R. F. Hayllar), London
Burrows, N. C. (Miss) (C. Pearson), Liverpool

Callister, D. W. (D. H. Senior), Sheffield
Campbell, I. (C. J. Barlow), Liverpool
Carmichael, D. J. (P. W. Barrows), Birmingham
Carpenter, T. E. (J. M. A. Gurney), Salisbury
Carrington, D. J. (P. G. Hounsfield), London
Carss, D. B. (A. J. Knights), London
Cartland, J. B. (F. B. Proctor), London
Cartwright, P. R. (J. D. Jasper), Cradley Heath
Cashman, J. E. J. (H. W. Wilson), London
Caunt, I. C. (D. Thompson), London
Chan-A-Sue, P. A. (A. F. Clarke), Liverpool
Charlton, M. (J. N. Wagstaff), Leicester
Chauchard, L. N. G. (R. J. Radford), Peterborough
Chaudhry, S. A. (M. G. Cass), London
Chivers, D. A. (R. L. Dunlop), London
Christian, N. H. G. (R. P. Jelks), Liverpool
Chui, C. K. (N. L. R. Trounce), Manchester
Clapshaw, R. E. A. (E. J. A. Clapshaw), London

Clare, J. R. (Miss) (P. D. Bryant), London
Clarke, C. M. (T. R. Watts), London
Clatworthy, B. J. (E. T. Worsley), Birmingham
Clegg, R. D. (E. Moss), Accrington
Clift, R. A. (N. J. Masterton), Birmingham
Clinch, R. A. (K. J. Pausey), Slough
Clutterbuck, J. (R. McNeil), Hove
Colbert, D. L. (W. H. Land), London
Coldwell, D. J. (R. Owers), London
Cole, M. G. (T. R. Hoddell), Nuneaton
Coleman, M. (R. Corfield), Manchester
Colledge, D. J. W. (H. C. Day), Chesterfield
Collins, D. A. (C. A. Butt), Leamington Spa
Collins, J. A. (P. N. G. Price), London
Collinson, C. R. (R. G. Collinson), Hull
Colson, D. J. (M. N. Goldberg), London
Combes, R. G. (D. H. Ortmans), London
Compton, A. S. (R. G. Leach), London
Connolly, D. J. (A. Punchard), London
Contractor, A. N. (Miss) (J. R. Tovey), Reading
Cooke, G. A. (J. B. Shepherd), Doncaster
Cooke, R. M. (R. Garner), Twickenham
Cooper, D. C. G. (P. E. Thain), King's Lynn
Cooper, J. M. (J. B. Neame), Canterbury
Cooper, N. P. (A. E. Shaw), Norwich
Cooper, P. S. (J. A. Hutchings), London
Cordiner, J. A. (J. A. Wardropper), Newcastle upon Tyne
Cornish, J. E. (A. E. Spicer), London
Court, J. M. (P. A. C. Vincent), London
Couture, P. J. (J. C. Durnin), London
Cowan, G. M. (D. B. T. Lattey), London
Cowan, L. (I. Cedar), London
Cowan, N. (F. Goldstein), London
Cowen, S. (G. G. Lee), Liverpool
Cowper, C. R. (M. A. B. Jenks), London
Cox, A. N. (M. C. Stothert), Bournemouth
Coyle, N. K. (N. Foulger), London
Crabtree, G. (H. Sharp), Manchester
Cravos, P. T. (A. W. Phillips), Cardiff
Crawford, P. N. (J. H. Wood), Bishop Auckland
Crawshaw, E. T. (J. Perfect), London
Cremin, D. J. P. (J. McMurray), Manchester
Crewe, J. E. (J. W. Skelsey), London
Crichton, R. N. (J. J. Walker), London
Cridland, A. R. (R. F. George), London
Crossley, K. N. (R. Crozier), Manchester
Cuff, T. A. (J. N. B. Millican), London
Culley, D. D. (C. Walkden), London
Cutts, A. P. (P. J. Gould), Sheffield

Daborn, G. M. (W. T. Wells), Kingston upon Thames
Dack, F. E. (B. W. Rivett), London
Dainty, L. (J. Rafferty), Cannock
Dalby, C. M. (A. G. Bragg), Birmingham
Dale, R. E. (C. Collett), Newcastle upon Tyne
Dalton, T. M. H. (R. H. Morcom), London
Daniels, K. B. (R. J. Feakins), Croydon
Dargue, R. T. (J. R. Baker), London
Darwood, M. B. (J. N. Wagstaff), Leicester
Datoo, Z. G. (W. J. Fooks), Cardiff
David, M. R. (J. C. M. Williams), Swansea
Davies, J. C. (R. B. Jones), Colwyn Bay
Davis, J. C. (H. F. Mathews), London
Davis, P. A. (W. E. Parker), London
Davison, A. J. (B. W. Vincent), London
Dawes, G. K. (C. B. Brecknock), Nottingham
Dean, P. N. (K. W. G. Webb), London
Dellar, J. H. (J. Hillier), Luton
Denham, R. W. (D. F. Byrne), Kingston upon Thames
Denman, D. F. (M. A. Wren), Southend-on-Sea
Dennis, P. G. (L. H. Atlas), London
Densem, R. G. (F. Hulme), Leek
Denton, J. I. (C. Smith), Sheffield
Dewshi, M. A. M. (I. R. McNeil), Hove
Dickson, J. (A. W. McBride), Middlesbrough
Dixon, J. B. (E. J. Newman), Birmingham
Done, M. J. (W. G. Densem), London
Doshi, A. J. (S. Berman), London
Downes, G. J. (D. R. P. Baker), London
Dowson, C. J. (F. J. Gaston), London
Driscoll, K. T. E. (A. Clarke), Manchester
Dummer, N. J. (F. H. W. W. Shaw), London
Duncombe, D. H. (W. E. Duncombe), St Albans
Dunn, R. F. D. (A. J. Paul), Redruth
Dyer, S. (A. D. Gordon), London

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Edden, P. G. (S. C. Mallett), Birmingham
Edey, R. P. (P. L. Eynon), London
Edgar, J. A. (J. A. Edwards), Manchester
Edgell, A. B. (M. F. Andrews), Bristol
Edwards, A. L. (H. G. George), Cardiff
Edwards, K. A. (N. Hildebrand), London
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Endicott, P. (R. Phelps), Bristol
England, A. D. (D. M. Parkes), Bristol
Evans, H. W. (F. W. Bailey), Leeds
Evans, S. D. (D. J. Ironside), Bristol
Ewen, W. G. B. (J. H. M. Flew), London

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Farley, R. M. (J. M. Farley), Bradford
Fenton, N. M. (M. R. Landau), London
Ferguson, P. R. (G. C. Peat), London
Ferris, A. G. (A. S. Maddison), Birmingham
Fetzer, R. W. (L. G. Fetzer), Newcastle under Lyme
Fielding, P. J. (R. A. Douglas), Manchester
Fletcher, J. D. (G. A. Raymond), Tunbridge Wells
Flitterman, L. J. (R. F. Prior), Nottingham
Flynn, M. J. (M. Berley), London
Folkes, K. A. (J. C. Fowler), Birmingham
Folley, K. (J. F. Worsley), Burnley
Foote, T. D. (R. S. Ransom), London
Forman, S. J. (L. P. Marchant), London
Forrest, A. T. (K. H. Oates), London
Forrest, T. J. (P. A. Bayliss), London
Foster, E. C. (H. W. Bagge), London
Fowler, K. T. (G. H. Gentle), Bedford
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Frampton, D. J. (M. C. Stothert), Bournemouth
Frampton, N. J. (A. D. Atherton), Bridport
France, R. G. (T. H. Burdon), Bradford
Franklin, C. E. (H. E. Hassell), London
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Frost, W. (M. A. Foulds), Nottingham

Gallagher, J. G. (E. S. Walker), Birmingham
Gallagher, P. R. (B. Walker), Birmingham
Galloway, A. J. (D. H. Lewis), Wolverhampton
Game, P. M. (R. J. Clark), London
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Gee, D. H. (M. E. Roberts), Dewsbury
Georghiou, T. (J. F. Taylor), London
Ghosh, A. K. (J. A. Bearman), London
Ghosh, D. K. (A. H. Bonn), London
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Gitter, G. (M. A. Brecknell), London
Glasgow, C. L. (A. M. Baker), Wolverhampton
Golding, H. S. (S. Kershen), London
Goodhind, R. E. N. (A. G. J. Horton-Stephens) Worthing
Gordon, L. M. (D. J. Hay), London
Gowers, A. M. (P. W. P. Knowles), London
Gradwell, M. (H. Chadwick), Manchester
Graham, B. G. M. (S. Schwartz), London
Graham, D. H. (J. E. Jackson), Kendal
Grant, R. J. (H. G. Ayres), London
Gray, A. R. (H. M. Hawthorne), London
Green, A. (C. E. B. Thompson), Ipswich
Green, D. M. J. (R. C. Copeman), Hull
Greene, L. (M. Fenton), London
Greenhalgh, M. (D. L. Chaplin), Manchester
Greenhalgh, M. (W. F. Page), King's Lynn
Gregory, M. C. (H. L. L. Bunker), Bristol
Gregory, R. P. (H. Keate), Manchester
Griffiths, A. N. C. (R. M. Peat), London
Griffiths, C. D. (J. O. M. Williams), Cardiff
Groves, H. J. (Miss) (C. R. Spencer), Dudley
Groves, P. W. (F. O. M. Smith), London
Gubbay, J. M. S. (R. Cooper), London
Gufflet, M. J. G. (R. F. Sumner), London
Guignard, R. C. P. (W. C. C. Smith), London
Gulliver, C. R. (J. D. Russell), London
Gunn, G. J. W. (R. W. L. Eke), London
Gunson, D. H. (R. H. Earp), Norwich

Hailey, J. A. (J. T. Bootyman), Grimsby
Halcrow, J. R. P. (J. H. Mann), London
Hall, J. S. (R. W. C. Dunn), Birmingham
Hallam, R. J. (W. R. Ball), Nottingham
Halls, N. C. (E. L. C. Swaysland), London
Hamilton, A. C. (J. E. K. Clarke), London
Hammersley, C. E. (D. P. Harris), Loughborough
Hammond, C. R. (S. Porter), Southend-on-Sea
Hancox, J. P. D. (E. N. Macdonald), Liverpool
Handley, P. J. W. (H. M. Pepper), Walsall
Harber, L. C. (G. H. Kingsmill), Swindon
Harbron, D. (J. D. Hebden), Middlesbrough
Harding, A. A. (J. C. Cain), Douglas, I.o.M.
Harmer, J. R. (A. L. Poole), London
Harrison, M. J. (E. W. Wells), Preston
Hartley, E. C. F. (K. S. Moore), London
Harvie, M. P. (W. E. C. Offer), Oxford
Hassell, J. C. (D. R. Clack), London
Hawkins, A. K. (E. Midgley), Manchester
Hayden, J. T. J. (B. Walker), Birmingham
Hayter, G. F. (A. Fletcher), Salisbury
Hazelwood, D. R. (P. Cooper), Newcastle upon Tyne
Helm, P. N. W. (K. Richmond), Fleetwood
Henderson, I. A. J. (A. Pinkney), London
Hennessy, C. T. (R. Pinto), London
Heslop, C. B. (C. D. G. Severn), Reading
Hetherington, A. S. (J. V. Hansford), Manchester
Hetherington, J. B. (H. Yates), Preston
Hill, J. R. (J. S. Lake), London
Hillman, P. J. (R. J. F. Slipper), London
Hinton, F. H. N. (S. V. P. Cornwell), Bristol
Hirst, J. M. (C. Connelly), Huddersfield
Hitchen, G. K. (A. J. Waring), Leeds
Hobbs, R. M. (E. T. Shepherd), Cardiff
Hodson, Mackenzie A. M., (G. H. Vieler), London
Hogben, M. A. (J. B. Ransome), London
Holder, M. J. (H. S. R. Harrison), Redditch
Holland, M. (R. G. Hawkes), London
Holland, P. (R. E. E. W. Bailey), Bishop's Stortford
Holland, P. (H. Hudson), Dudley
Holmes, M. A. (C. W. Gillott), Nottingham
Holmes, T. W. (R. Coward), Sheffield
Holt, G. (J. P. C. Richardson), London
Hood, F. (C. R. Warman), London
Hood, H. O. J. (J. R. Taylor), Redhill
Hook, D. J. (The Hon. W. G. M. Spens), London
Hopper, G. (J. V. Baines), Stockton-on-Tees
Horner, S. W. (H. W. C. Airey), London
Housechild, R. J. (M. A. Brecknell), London
Howard, I. (H. Keate), Manchester
Hubbard, J. M. (D. N. Williams), Birmingham
Hughes, M. B. (N. H. Russell), Birmingham
Hughes, R. H. M. (J. V. Hansford), Manchester
Hughes, R. J. W. (G. W. Harrison), Wolverhampton
Hughesdon, J. S. (J. W. Margetts), London
Hullah, N. P. (F. L. Fleetwood), Leeds
Hulme, D. J. M. (W. F. Masters), London
Humpage, D. T. (A. Holmes), Manchester
Humpage, M. J. (R. Horne), Blackpool
Hurst, M. R. (J. M. Cartwright), London
Hurst, R. M. (N. G. Trotter), Newcastle upon Tyne
Hyam, S. (C. Fine), London

Ingall, D. A. (E. C. Griffith), Watford
Irwin, A. G. (C. C. Living), London
Irwin, R. W. (J. S. Harrison), Leeds

Jackson, R. M. (C. J. Mason), Birmingham
James, C. B. (E. C. Jones), London
James, S. S. (L. C. Hopkins), Hemel Hempstead
Jamil, S. (J. B. Pinnock), Bedford
Javeri, R. N. (G. L. Wiener), London
Jayaratne, M. A. M. de S. (W. T. R. Masterson), London
Jeans, M. H. V. (O. H. Thompson), London
Jebson, M. J. (M. Naylor), Blackpool
Jefferson, T. W. (R. L. Stockill), Driffield
Jeffs, H. (J. M. Hanmer), Liverpool
Jenkin, F. M. (J. Lovell), Penzance
Jenkins, G. B. (D. G. Gordon), Bournemouth
Jenyns, R. G. (J. R. Wells), London
Jerram, J. J. (E. E. P. Maltby), London
Jessa, A. A. M. (J. Harrison), London
Jessop, D. G. (H. H. Holdsworth), Leeds
Jewson, A. (P. R. M. Harbottle), Newcastle upon Tyne
Jinnah, A. H. G. (H. S. Renton), London
Joannides, C. C. (J. H. Wilson), London
Johansen, P. A. (W. B. S. Walker), London
Johns, R. T. M. (D. F. Pratten), London

Johnson, G. T. (E. Tootle), Wigan
Johnson, J. M. (A. J. Lovatt), Peterborough
Johnson, K. H. (J. G. Hindmarch), Grantham
Jones, D. C. (H. C. Fooks), Cardiff
Jones, E. L. L. (J. F. Kelly), Newcastle upon Tyne
Jones, J. D. (J. K. Douglas), Liverpool
Jones, K. S. H. (E. A. Fern), Coventry
Jones, M. D. (A. G. Hirst), Liverpool
Jones, P. R. (L. H. Rattenbury), London
Jones, P. W. (P. G. Walker), Warrington
Jones, R. M. (A. C. Falkner), London
Jordan, D. F. (G. H. Cann), London
Joseph, R. L. (H. M. Lepper), Northampton
Jowett, J. I. (L. D. Hayward), Liverpool

Kalman, J. P. (N. Libson), London
Kamalia, M. M. (B. V. Morris), London
Kan, Y. Y. M. (J. T. Corbett), London
Kandler, G. M. (M. W. Burns), London
Kearns, N. A. (I. C. Paterson), London
Kemp, W. D. (A. V. J. More), Manchester
Kemp Harper, R. L. (R. Fawcett), London
Kenney, R. L. (C. E. Parkinson), London
Kerner, S. M. (I. M. Cohen), London
Kershaw, J. F. (A. P. Hanley), Sale
Khan, R. A. (P. J. Hewitt), London
Khoo, K. W. (A. J. Knox), London
Kiddle, G. C. O. (K. Johnson), Leicester
King, R. D. (W. C. Craig), York
Knapton, A. J. (K. Trickett), Sheffield
Kneill, M. A. (F. T. Wright), London
Knight, D. (H. H. Thornborough), Enfield
Knight, J. A. (F. H. Richardson), Derby
Kohn, T. (Miss) (J. Kimche), London
Kumar, R. P. (G. D. Paterson), Manchester
Kutchinsky, R. N. (J. A. Garden), London
Kyle, P. E. (B. Collins), London

Lagesse, A. R. P. (A. D. Wardle), London
Lakra, H. (M. F. Pope), Canterbury
Lal, B. (L. A. Webb), London
Lalani, M. H. M. (J. Beirne), Portsmouth
Lalji, A. R. (N. N. Pampel), London
Lalvani, R. T. (A. W. Coleman), London
Lamb, J. T. W. (G. C. Sagar), Leeds
Lambert, J. R. (J. M. E. Ravenscroft), Maidstone
Lamey, C. J. (P. G. Wilde), Torquay
Lance, L. A. (G. C. Tayler), Ashford, Kent
Landau, I. V. (R. M. Filer), London
Lasebikan, A. O. (V. F. Berry), London
Lavers, R. J. (W. O. Newcomb), London
Lawrance, J. (T. P. Bingham), London
Lawrence, H. B. (A. S. Maddison), Birmingham
Lawrence, K. B. (R. S. Sprange), Sutton
Lawson, R. I. (C. E. Sidwell), Harrogate
Lea, R. A. (E. L. Kenworthy), Birmingham
Leach, T. (J. B. Ellis), Buxton
Lee, D. N. (K. A. Buxton), Nottingham
Lee, H. R. S. (J. Barrett), Leeds
Leek, J. A. (R. H. Wall), Birmingham
Leek, J. A. (C. W. Gillott), Nottingham
Lees, D. A. (B. A. S. Soole), London
Leesmith, A. E. (K. E. Davis), Enfield
Lehrer, K. (M. Berley), London
Leigh, R. S. (C. C. Hubbard), London
Leighton, E. D. J. (C. H. S. Lewis), London
Leopard, N. H. (H. J. H. Leopard), Worcester
Lepard, N. (A. G. H. Marks), London
Levene, J. M. H. (M. L. Phillips), London
Levi, P. J. (R. Taylor), London
Levine, E. (A. M. Hendry), London
Lewis, K. R. (R. J. Mathias), Cardiff
Lewys-Lloyd, J. C. (G. R. Leece), Liverpool

Liddiard, S. P. (D. Browning), London
Limby, G. (H. P. Nunes Vaz), London
Lipman, B. G. (A. A. Nyfield), London
Lochan, F. N. C. (D. E. Brewster), London
Lock, R. A. (J. H. Sisson), London
Lodge, S. B. (J. R. Akester), Bradford
Lord, C. J. (A. F. Pownall), Liverpool
Loring, C. T. (E. Hewitt), London
Lovatt, D. J. (R. H. Field), Wolverhampton
Lovett, J. C. (L. O. Ross), London
Lowe, N. F. (J. F. Hendre), London
Lowe, R. S. (E. R. Marsh), Blackheath, Staffs
Lowe, T. P. (B. R. Dunn), Nottingham
Luscombe, R. W. (Sir Thomas Robson), London

McAdam, K. D. (D. Stuttard), Liverpool
MacDonald, M. G. (W. McD. Morison), London
McFetrich, C. A. (R. Lofthouse), Newcastle upon Tyne
McGrory, I. R. C. (P. M. S. Longcroft), London
Machin, R. L. (E. A. Norman), Worcester
Mackay, A. J. (J. R. Wells), London
Mackenzie, D. S. G. (J. F. Holroyd), Liverpool
McLean, M. (R. A. Squires), Birmingham
Maddison, K. (F. L. Gower), Ipswich
Majid, K. (J. Bowman), London
Majiyagbe, D. B. A. (Miss) (A. Jefferson), London
Makin, N. C. (E. Barker), Huddersfield
Mallinson, M. A. (G. P. Marsden), Halifax
Malthouse, J. C. (F. J. Frodsham), Liverpool
Mann, P. F. (J. A. P. Whinney), London
Marfell, R. I. W. (L. S. Daniel), Taunton
Mariner, S. C. (J. P. B. Martin), Winchester
Marke, R. V. S. (M. S. Barker), London
Marsh, A. (D. E. B. Bradbury), Chesterfield
Marsh, P. (W. A. Barnard), Fareham
Marshall, J. W. (W. H. D. Campbell), London
Martin, C. D. (R. J. Butterworth), London
Martin, G. G. (R. St J. Buller), Bedford
Martin, P. A. (E. C. Godfrey), Leicester
Martin, P. R. S. (J. Rowlandson), Swansea
Mason, M. G. (R. J. Cody), London
Masters, B. J. (A. S. Hill), Coventry
Mattock, J. C. (H. W. Sydenham), London
May, C. J. R. (D. B. Sharp), London
Mayes, R. J. (L. W. Shaw), London
Maynard, H. C. E. (S. W. C. Sprunt), London
Mead, A. F. J. (J. Seymour), London
Mee, R. A. (J. S. Sayer), Birmingham
Megaw, R. C. (W. E. Parker), London
Mehra, A. K. (V. Sopher), London
Meller, J. P. (E. W. B. Cotterell), Birmingham
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Meredith, P. G. (E. Kirkby), Bradford
Middlemiss, S. A. (A. D. Macve), London
Millen, R. J. (G. P. Townend), London
Miller, M. C. (W. C. Craig), York
Miller, P. J. (A. Pinkney), London
Miller, R. G. (R. D. Barrett), Yeovil
Mitchell, M. A. (D. G. Tate), St Albans
Mohan, S. (J. W. Bell), London
Monroe, W. K. G. (C. C. Taylor), Liverpool
Montague, J. A. V. (K. J. Johnson), Watford
Montgomery, I. (E. C. F. Schooling), Carlisle
Moore, P. R. (A. Masters), Nottingham
Morgan, D. R. (H. L. Fisher), London
Morris, H. B. (J. Fairhurst), Wigan
Moss, C. R. (D. A. Sutherland), Manchester
Moxon, J. R. T. (M. A. Charlton), London
Munford. G. L. (R. Gray), London
Munns, D. W. (C. H. Pettit), Northampton
Munroe, J. (J. W. Berriman), Middlesbrough

Murphy, K. M. (P. Godfrey), London
Murray, W. (D. B. Ward), Newcastle upon Tyne
Murrell, D. B. (H. F. Shapland), Minehead

Nagle, M. (M. Farmer), London
Needler, G. H. C. (W. H. Hall), Hull
Neogy, A. (L. F. Jones), Wolverhampton
Nicholson, J. R. (B. W. Rivett), London
Nilsson, H. (R. F. Sumner), London
Noble, C. H. (J. S. Sayer), Birmingham
Norfolk, M. D. (L. B. Eagle), Leeds
North, I. (J. Astle), Leeds
Nutty, G. (V. J. Cooke), Burnham-on-Sea

O'Doherty, B. (K. A. Monod), Watford
Ogle, S. R. (D. D. Rae Smith), London
Ogunde, A. O. (M. A. Charlton), London
Okechukwu, E. A. (E. D. D'Alton), London
O'Leary, F. (T. E. Entwistle), Liverpool
Oliver, I. R. (T. R. Oliver), Nottingham
Olliffe, G. H. (D. G. Page), London
Ollis, G. J. (J. M. Hall), Solihull
Onyekwelu, C. T. O. (A. Pinkney), London
Oratis, S. (J. H. S. Howard), London
Ord, R. S. (D. B. Ward), Middlesbrough
Organ, K. (R. G. Blower), Scarborough
Overstall, J. C. (C. J. M. Bennett), London
Owles, B. R. B. (P. D. Fuller), London
Oxley, A. J. (L. K. Wilson), Warrington

Packe, M. G. (S. T. Milner), Harrogate
Palfreman, S. H. (R. H. Cromarty), Nottingham
Palmer, A. H. (J. P. Ogden), London
Parish, D. W. (E. Lucas), Bedford
Parsons, B. H. (I. H. Handley), Winchester
Passey, G. F. (S. J. Drakeley), Nuneaton
Patchett, G. F. (R. C. Munyard), London
Paterson, I. K. (J. T. S. Bower), London
Pattinson, M. J. (E. C. F. Schooling), Carlisle
Pawson, R. S. (E. Lindley), Bradford
Payling, J. E. (E. Sugden), Leeds
Payne, R. F. (J. M. Webb), Birmingham
Pearce, J. P. (J. E. L. Griffith), Maidenhead
Pearman, D. A. (C. F. M. Hawkins), Bristol
Pearson, A. J. (B. A. Kemp), London
Peat, R. S. (R. W. Swinbank), Stockton-on-Tees
Pegler, S. R. (V. J. Cooke), Burnham-on-Sea
Penn, J. J. (L. J. Sparshot), Birmingham
Penney, J. H. (M. S. Josephs), London
Pennington, D. M. (T. S. Scott), London
Pestereff, M. N. (J. A. Lunt), Manchester
Peters, A. J. (W. G. Densem), London
Peters, C. L. (G. E. Pollinger), Bristol
Pettitt, R. G. (V. R. V. Cooper), London
Pelanz, E. M. (A. F. Christlieb), London
Phillips, E. G. (A. S. Hitchings), London
Phillips, J. T. (A. Strudwick), London
Phillips, P. F. (M. A. Brown), Bath
Pigeon, R. A. (E. G. Lambard), London
Pilbrow, N. D. (J. G. S. Longcroft), London
Pilgrim, G. J. (S. A. Letts), London
Pinckney, D. C. (R. G. Leach), London
Pink, R. E. (R. St C. Page), Nottingham
Pinteau, M. (D. G. Latimer), London
Pirbhai, A. H. (R. J. B. Blake), London
Platt, D. A. (D. S. Hewitt), Manchester
Platt, D. J. (K. D. Hutton), London
Platt, R. G. (D. A. Jackson), Stoke-on-Trent
Plews, M. G. K. (N. A. Wheatcroft), Sheffield
Plummer, C. A. (J. C. Howard), London
Poole, K. L. (R. C. C. Rawlins), London
Pope, M. E. (C. R. Atkinson), London
Porritt, H. T. (D. R. Clack), London

Potter, S. (D. E. Winterbottom), York
Pratt, N. M. (F. V. Hussey), Ipswich
Price, J. J. (R. Spooner), London
Prosser, I. M. G. (C. E. Garratt), Birmingham
Proudlock, G. (W. G. Mackey), Newcastle upon Tyne
Pruim, A. L. (B. J. P. Cotton), London
Pugh, M. J. (R. W. Warren), London
Puri, A. K. (P. H. Tyack), London
Puri, R. K. (G. D. Vicary), London
Pursey, R. E. (D. G. Roberts), London
Puttock, D. F. (H. B. C. Sandford), Tunbridge Wells
Pyatt, R. J. (P. F. Granger), Nottingham
Pye, C. M. (H. Newman), London

Quilliam, J. B. (A. M. Lerman), Birkenhead

Ragab, M. Z. (K. I. Morgan), Swansea
Rahman, M. S. (G. Hamilton), Kingston upon Thames
Rainton, E. D. (H. B. Kilvington), West Hartlepool
Ratna, A. (D. S. Knights), London
Raven, C. A. N. (H. Price), Eastbourne
Ravenscroft, R. A. (C. B. Newcomb), London
Rawle, J. E. (H. C. M. Lewis), Eastleigh
Rawlins, P. J. (J. T. Corbett), London
Rawlinson, D. H. (J. C. Brown), Manchester
Readings, G. R. (Miss) (W. Ledger), Kingston upon Thames
Redington, P. D. (R. F. George), London
Reece, N. J. (J. W. R. Lindsey), London
Rees, D. A. (W. H. Davies), Cardiff
Rees, P. H. (R. A. Howard), Birmingham
Rees, V. W. (R. S. Waldron), London
Reeves, D. C. (F. Jones), London
Rehman, M. F. (S. Freeman), London
Rennocks, J. L. (J. A. Oliver), London
Revel, F. D. (R. H. Ashcroft), London
Reynolds, M. (Miss) (H. A. Kinney), Brighton
Rice, D. H. (T. R. Marshall), Northampton
Richardson, D. (A. Cherry), Manchester
Rink, A. A. (H. W. E. Thompson), Manchester
Roberts, J. L. (J. A. Roberts), Chesterfield
Roberts, T. S. (G. E. F. Harding), Liverpool
Robertson, N. J. (C. E. M. Hardie), London
Robertson, T. F. (A. D. Cotton), Manchester
Robinson, M. C. R. (F. G. Rollason), London
Rodda, D. E. (R. F. Watkins), Northampton
Rodway, A. J. (R. W. West), London
Rogerson, P. G. (J. M. Gilliat), Manchester
Rose, S. (L. Baker), London
Rosenbaum, D. D. (B. H. Lyons), London
Rosenbaum, R. A. (K. J. Taylor), London
Rosenberg, R. N. (M. S. Josephs), London
Roth, B. S. (P. C. Susskind), London
Rotherham, K. (G. E. F. Harding), Liverpool
Rotimi, J. L. B. (R. W. Gorman), London
Round, M. (F. Nankivell), Newton Abbot
Rudd, A. N. R. (F. Jeffery), Derby
Rumph, A. (A. Scattergood), Liverpool

Sacks, J. H. (S. Z. Weston), London
Sackwild, G. (L. C. Curtis), London
Saeed, P. E. (Mrs) (R. H. MacIntyre), London
Sager, A. M. (W. S. Twaddle), Newcastle upon Tyne
Sargeant, P. F. (L. V. Rainey), Sevenoaks
Scott, P. R. (J. R. Briggs), London
Scott, W. (J. Mayhew-Sanders), London
Scrase, K. M. (Miss) (N. E. Bicker), Bournemouth
Scrimgeour, A. J. C. (N. V. S. Nielsen), London
Seals, R. (J. A. Brier), Chesterfield
Sechiari, P. G. (I. A. Wallace), Brighton
Seddon, J. G. (G. W. Bussell), London
Selby, D. F. M. (P. J. Hawker), London
Sellers, M. J. W. (J. E. Scheerer), Leeds
Serginson, A. (H. C. Makepeace), Middlesbrough
Sewell, C. T. S. (R. A. Covington), London
Shah, A. K. (R. B. Milne), Reading
Shail, R. (E. F. Wilkins), London
Shanks, E. H. (J. L. Winder), Barrow-in-Furness
Shannon, C. E. (R. H. Ashcroft), London
Sharma, K. K. (R. C. Deith), London
Sharp, B. J. (J. H. Girdwood), London
Shaw, D. J. (K. A. Chapman), Nottingham
Sheffer, D. A. (J. B. Martin), Liverpool
Shelmerdine, J. (R. S. Wainwright), Leeds
Shepherd, B. (J. B. Noble), Barnsley
Sheppard, D. R. A. (N. F. Pennington), Ipswich
Shonfield, J. K. C. (W. R. Pugsley), London
Shukla, H. V. (M. Moss), London
Shulman, K. J. (R. F. Watkins), Northampton
Simmonds, A. (M. R. Landau), London
Simmonds, J. A. E. (C. R. Williams), London
Simons, D. E. F. (H. P. Patterson), London
Simpson, A. J. (H. W. Miller), Bridgend
Sinclair, H. A. (W. G. Densem), London
Slater, C. D. (L. W. Hodgson), London
Slater, G. (D. Watts), St Albans
Sloan, I. A. (R. W. Brazier), London
Smith, A. E. (C. W. Gillott), Nottingham
Smith, A. T. (J. Fawcett), Grimsby
Smith, C. G. (T. A. Moodie), London
Smith, G. R. (P. K. Pitt), Cirencester
Smith, G. S. (G. C. Tayler), Ashford, Kent
Smith, H. M. (R. T. Parkinson), Cardiff
Smith, K. R. (J. H. Jackson), Leigh, Lancs
Smith, M. R. (D. R. Lamb), Stevenage
Smith, R. A. F. (F. C. Roy), Worcester
Smith, R. J. (D. C. Hobson), London
Snape, C. (W. J. Horsfall), Liverpool
Sober, A. L. (P. Fine), London
Sorkin, A. M. (L. W. Robson), London
Southern, J. A. (J. A. Jackson), London
Southworth, P. D. (R. C. Copeman), Hull
Spencer, G. J. (H. J. Wells), London
Spens, P. M. R. (J. B. Ransome), London
Starling, J. C. (F. T. Snow), London
Starr, C. J. (T. R. McBride), London
Steel, R. J. B. (P. B. Norledge), London
Steinberg, G. (S. Cohen), London
Stephenson, D. J. (C. R. Stephenson), Reigate
Stevens, D. (J. S. Holloway), Wolverhampton
Stockwell, R. A. O. (D. G. Wilkins), Amersham
Storey, T. M. (R. G. Leach), London
Stout, T. F. (Miss E. D. Barrow), Whitehaven
Stredwick, R. J. (H. A. Sudell), London
Strickland, B. V. M. (M. R. Harris), London
Stuckey, J. G. H. (C. C. Living), London
Subramanian, S. (A. Harris), London
Sullivan, E. P. (D. R. Huntingford), London
Sumner, D. H. (N. Grenfell), Teddington
Sutherland, M. S. (F. K. Berry), Maidstone

Tahseen, M. M. (V. C. Baker), London
Taseer, S. (J. C. Smethers), London
Taylor, D. J. (A. A. F. Redwood), Bristol
Taylor, M. J. (L. J. Culshaw), London
Taylor, P. G. (B. Cottingham), Sheffield
Taylor, R. M. G. (C. H. Nathan), London
Taylor, T. R. (A. C. Trathen), Enfield
Thackara, J. A. (D. A. Huggons), London
Thomas, D. O. (J. E. Page), London
Thomas, J. R. (S. H. D. Thomas), Abergavenny
Thomas, M. O. (F. W. Tunbridge), Birmingham
Thomas, T. M. (F. C. Rudd), Swansea
Thompson, P. L. (F. H. Parkinson), Coventry
Thornton, C. D. (E. G. Wilcox), Birmingham
Tiffin, C. M. (L. J. Newey), Romford
Tiffin, R. R. (L. A. Cox), London
Tillin, A. M. (C. B. Henning), London
Tolley, P. A. (E. T. Ashworth), Doncaster
Tomlinson, J. A. (A. R. Favell), Sheffield
Tomlinson, P. (G. W. Currie), Blackpool
Toole, I. C. N. (G. E. Hedgman), London
Towers, A. V. (O. B. T. Bennett), Oxford
Townsend, M. (T. Bedford), Leeds
Towse, C. S. (R. J. H. Eagle), London
Tranter, P. A. (D. P. Lloyd), Dudley
Trapp, J. T. (E. N. Macdonald), Liverpool
Trenerry, R. E. (J. W. Lodge), Truro
Trill, D. J. (J. E. R. Vellacott), London
Tsielepis, C. G. (A. E. Jacob), London
Tudor, R. G. (J. F. Jee), Coventry
Turnbull, N. V. (P. M. S. Longcroft), London
Turnbull, P. (H. L. Barlow), Luton
Turnbull, R. A. B. (D. King), Chesterfield
Tyler, M. E. (B. C. Tarry), Wellingborough

Ud-Din, I. (F. Goldstein), London
Underhill, A. (J. M. Canham), London
Underhill, R. (G. R. Leece), Liverpool
Uwakwe, P. L. (T. H. Latham), Wigan

Vardy, P. C. (J. Wakeham), London
Varley, K. R. (K. Beardsell), Bradford
Vaughan, A. J. (B. R. Varcoe), Bristol
Vicars, G. L. R. (R. H. Shotliff), London
Villiers, C. N. (E. E. P. Maltby), London

Waggott, T. J. (G. N. Fullagar), Liverpool
Waite, T. H. R. (J. T. Ketterer), Leigh-on-Sea
Walker, A. J. (J. E. Talbot), London
Wallace, H. M. (N. G. Webber), Exeter
Wallis, S. M. (H. W. Wilson), London
Walsh, M. A. (B. Collins), Manchester
Warburton, F. (W. F. Riding), Manchester
Ward, I. (A. E. Smith), Doncaster
Warden, D. C. (G. H. Camamile), Lincoln
Warlow, D. P. (R. N. Blake), Bristol
Watkins, T. A. G. (A. Cunningham), London
Watson, D. S. (M. E. Hatch), London
Watson, M. (Miss) (W. E. Whitwell), Kendal
Watts, D. S. (D. G. Scutt), Brighton
Watts, M. D. (W. E. Little), Sidcup
Waxman, F. S. (C. S. Raine), London
Webb, R. A. (K. W. Hammond), London
Webb, R. J. (H. Baldwin), Manchester
Weiner, A. D. (A. Marks), London
Weir, J. (N. Butterworth), London
Wells, G. H. (H. E. Marshall), Portsmouth
West, D. J. (J. S. Short), Basingstoke
Whatsley, A. R. (C. S. G. Kealey), London
Wheatley, A. J. (G. D. Hopkinson), Birmingham
Wheatley, J. W. (E. Williams), Derby
White, B. L. (Miss) (J. P. N. Brogden), Portsmouth
White R. V. (L. A. Rossiter), Salisbury
Whittam, A. J. (D. Webster), Manchester
Whitten, R. E. (J. H. Davies), London
Whitwell, M. (T. Wilson), Manchester
Whone, J. (F. Hulme), Leek
Whyard, M. J. (J. A. Davison), Leicester
Wichelow, P. A. (L. J. W. Gould), London
Wickens, R. F. (A. C. Bright), Worthing
Wightman, R. G. (E. D. London), Nottingham
Wild, S. (J. Talbot), Oldham
Wilde, P. F. (A. B. Plevey), Wolverhampton
Wilks, A. J. (W. E. Moore), Sheffield
Williams, A. A. (D. E. F. Green), London
Williams, A. V. (J. S. Boreham), London
Williams, D. B. (R. R. Davies), Cardiff
Williams, G. W. (W. H. Olivier), Sheffield
Williams, J. W. (G. B. Coop), London
Williams, P. J. (H. W. Bankes), Liverpool
Willows, D. F. (W. C. C. Smith), London
Wilshaw, S. N. (G. B. Jones), Evesham
Wilson, D. (K. Smith), Mansfield
Wilson, D. K. (F. B. Proctor), London
Wilson, P. R. (J. T. S. Bower), London
Witcher, P. W. R. (R. J. Parker), Aylesbury
Wolstenholme, T. V. (E. D. Q. D'Alton), London
Womersley, R. I. (B. Asquith), Leeds
Wood, D. J. (A. M. Bond), London
Wood, P. C. (A. E. Spicer), London
Wood, T. G. (H. Keate), Manchester
Woodd, H. B. (R. K. Briscoe), London
Wooddisse, P. A. (S. F. Chaplin), Wolverhampton
Woods, J. R. (M. A. Coates), London
Woodward, B. R. (B. A. Clark), London
Woolfson, L. I. (I. Sassoon), London
Woolley, J. G. (G. R. Postlethwaite), Doncaster
Worthy, K. J. (R. W. Brazier), London
Wright, A. A. (D. J. James), London
Wright, A. J. (K. Richmond), Fleetwood
Wright, D. (T. G. Rimington), Spalding
Wright, D. M. (E. P. Robey), Reading
Wright, K. J. (F. W. Tunbridge), Birmingham
Wrigley, T. G. (C. G. Compton), Boston
Wynne, J. D. (F. A. Noble), Liverpool

Yates, D. M. (R. F. Sumner), London
Yuen, K. K. (S. Cohen), London

Ziegler, G. A. (J. E. Page), London

SUMMARY OF RESULTS

	Passed	*Failed*	*Total*	*Completing Final Examination*
Final (Old Syllabus)	1,094	1,208	2,302	1,094
Final (New Syllabus)				
Parts I and II together	4	4	8	4
Part I only	818†	840	1,658	—
Part II only	21	12	33	21

† Includes five candidates who sat for both Parts of the examination and passed in Part I only.

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amounts relating to subsidiaries which they have not themselves audited are dealt with in *Statement on Auditing No. 5 Auditors' Reports on Group Accounts*, paragraph 2 of which states, *inter alia*:

'While it is usually desirable for the holding company's auditors to include in their report, for the information of the shareholders, some such factual statement (where the amounts involved are material) as:

"The accounts of one (or some) of the subsidiaries have been audited by another firm (or other firms)"

this does not relieve them of their obligations. The responsibility for the opinion which they express is theirs and theirs alone, and it is their professional competence and reputation on which the shareholders who appointed them are relying. In the words of the opinion given by counsel in 1948 and reaffirmed by counsel in 1965:

"The auditors of the holding company must take responsibility for accepting for the purposes of group accounts the balance sheets and profit and loss accounts of subsidiaries. This may involve either relying upon the reports of the auditors of the subsidiaries or making such inquiries regarding the subsidiaries' accounts as they deem to be necessary. It is for the holding company's auditors to decide, as reasonable men, which course it is necessary for them to take for this purpose".' (See section O2, paragraph 125.)

Consolidated accounts – qualifying statements contained in the auditors' reports on the accounts of subsidiary companies

13. Paragraph 15 (4) (*d*) of the Eighth Schedule to the Companies Act, 1948, requires that where group accounts are not submitted any qualifications contained in auditors' reports on the accounts of subsidiaries should be disclosed in a statement attached to the balance sheet of the holding company. If consolidated accounts are prepared the auditors' report thereon should include a qualification in appropriate terms if material reservations have been expressed by other auditors in their reports on subsidiary companies, in so far as such reservations are judged by the holding company's auditors to be material in relation to the consolidated accounts and appropriate adjustments have not been made on consolidation.

PART II: PRACTICAL APPLICATIONS

Introductory

14. Since qualifications must be expressed in terms chosen to fit the particular circumstances to which they relate it is impracticable, and would be misleading, to suggest standard forms of qualification. The examples which follow are intended as practical illustrations of the principles described in the first part of this statement, and should be read with this in mind. *It is emphasized that they are not intended, and are not necessarily suitable for adaptation to and use in other circumstances.* The examples are fictitious and deliberately simplified. In practice, if circumstances call for a qualified audit report they will often be far more complex than the illustrations given, and may sometimes necessitate explanation at length to make the position clear. For the purposes of the examples it is assumed throughout that the amounts in question are judged to be material.

15. If the auditors have reason to consider whether their report should be qualified, the nature and importance of the items at issue should be assessed in relation to the accounts as a whole so as to determine their significance in judging the truth and fairness of the view presented. As mentioned in paragraph 3, auditors are usually able to report that in spite of the qualifying statement the accounts give a true and fair view in all other respects. In the last resort however the reservation may be so fundamental as to make it necessary for them to state either that they are unable to express an opinion, or in extreme cases, that in their opinion the accounts do not present a true and fair view. These situations are considered in paragraphs 17 and 18.

Auditors' report that the accounts present a true and fair view subject to specific reservations

16. The auditors may be unable to obtain all the information which they consider necessary. In such circumstances their report should set out the nature of the information which is lacking and its effect upon the accounts. The facts should be expressed in terms which give as clear an indication as is practicable of the uncertainty which arises from the inadequate information. If, for example, some sections of a company's stocktaking records have been destroyed in error, and after studying such ancillary records and other corroborating evidence as is available the auditors are unable to form a view as to the amount properly to be attributed in the accounts to the stocks affected, their report might be as follows:

'Some of the detailed stocktaking sheets relating to stocks held at the balance sheet date have been destroyed. In their absence we have been unable to substantiate the basis of computation of stock amounting to £14,500 out of the total of £50,000 at which stock is shown in the balance sheet. With this exception we have obtained all the information and explanations which we considered necessary.

'Subject to the foregoing reservation the accounts in our opinion give a true and fair view . . .' (followed by the appropriate form of wording).

Auditors' report that they have been unable to form an opinion

17. The Ninth Schedule requires auditors to report whether the accounts on which they are reporting present a true and fair view. It does not appear to envisage circumstances in which the auditors are unable to form an opinion on the accounts as a whole, so that they cannot positively report one way or the other. Nevertheless, such a situation may arise; if, for instance, a company holds substantial stocks or other current assets overseas and these are sequestrated or frozen by action of the Government of the territory in question, so that their realizability and ultimate value are uncertain, the auditors may be unable to form an opinion whether the amount at which they are shown in the accounts presents a true and fair view. In such circumstances the auditors' report might read:

'Stocks stated at £50,000 are located in [name of territory] and are at present unrealizable because they appear to have been sequestrated by the provisional government. We are unable to form an opinion whether they are realizable by the company at the amounts stated, if at all,

and for this reason are unable to report whether the accounts give a true and fair view . . .' (followed by the appropriate form of wording).

Auditors' report that the accounts do not present a true and fair view

18. If in the auditors' opinion the accounts as a whole fail to present a true and fair view, it is their duty to report accordingly, giving their reasons. For example, if a company's assets consist wholly or mainly of shares in another company which is in liquidation, but the investment is shown at cost without provision for any estimated loss and without any other indication of the position, the auditors' report might read:

> 'The shares in P.Q. Ltd which is in liquidation, are shown in the balance sheet at their cost of £100,000 but the liquidator has stated that it is unlikely that the company will be able to pay its debts in full, with the consequence that the shares appear to be valueless. For this reason the accounts do not in our opinion give a true and fair view . . .' (followed by the appropriate form of wording).

Notes and accounts

19. If the accounts are supplemented or qualified by information contained in notes or in the directors' report, the effect of this additional information upon the truth and fairness of the view disclosed by the accounts requires consideration. If a note to the accounts or reference in the directors' report is essentially a material qualification of the information which the accounts themselves disclose, it will be necessary for the auditors to make a detailed reference to the substance thereof in their report. For example, if a note to the accounts indicates that debtors include a significant amount which it is not expected will be recovered, but that pending ascertainment of the loss no provision has been made in the accounts, the auditors' report might read:

> 'The accounts make no provision for loss on the debt of £25,000 referred to in Note . . . With this exception, the accounts in our opinion give a true and fair view . . .' (or, if, as illustrated in paragraph 18, the item in question is so substantial that doubt is cast on the view shown by the accounts as a whole – 'For this reason the accounts in our opinion do not give a true and fair view . . .') (followed by the appropriate form of wording).

Consolidated accounts – other qualifying statements in auditors' reports

20. Circumstances may arise when in the auditors' opinion the consolidated accounts do not give a true and fair view as required by paragraph 18 of the Eighth Schedule which provides that the consolidated accounts shall comply so far as practicable with the requirements of the Act as if they were the accounts of an actual company. Accordingly, even though the separate accounts of the individual companies in the group do not by themselves call for any qualification of the auditors' reports, qualifying statements may be necessary in the auditors' report on the consolidated accounts if in their opinion appropriate adjustments have not been made. For example, if the parent company manufactures goods for sale by a subsidiary and the intercompany profit on stocks existing at the date of the balance sheet has not been eliminated, the auditors' report might read:

> 'Group revenue includes unrealized profits amounting to £100,000 on products transferred at selling price between members of the group and remaining in stock at the date of the balance sheet. With this exception the group accounts in our opinion give a true and fair view . . .' (followed by the appropriate form of wording).

Budget Memorandum to the Chancellor

from The Institute of Chartered Accountants of Scotland

THE Council of The Institute of Chartered Accountants of Scotland has submitted to the Chancellor of the Exchequer its suggestions for possible legislative changes which might be included in the next Finance Bill.

The suggestions in the main do not include detailed comment on the Finance Act, 1965, which comment, it is felt, should be deferred until the Act has become fully operative and practical experience obtained. At the same time the Council has submitted to the Board of Inland Revenue a memorandum on certain technical aspects of the Act, which have already become apparent and which the Council believes to require attention.[1]

As in former years, the Council does not concern itself with general pleas for over-all reductions or increases in taxation or with party political questions. The Council trusts that its suggestions will be considered as being of a nature which might improve the administration of taxation or remove or mitigate causes of hardship or inequality among taxpayers.

[1] Reproduced at page 196. – Editor.

I. ADMINISTRATION

1. Anti-avoidance Legislation

The Council again urges that the recommendation of the Royal Commission on the Taxation of Profits and Income with reference to tax avoidance should receive attention and that an expert body or bodies should be set up to consider anti-avoidance legislation. The Council repeats that, whilst accepting the need for such legislation, it is strongly of the opinion that the law is, and continually tends to be, so widely drawn as to prove a hindrance to many business transactions which

prima facie are not within the ambit of the mischief sought to be remedied. The Council again suggests that a body or bodies should be created to which it would be possible to submit proposals about intended transactions or information about completed transactions in order that they could be cleared from the scope of the anti-avoidance legislation. The Council is strengthened in its view by the recent case of *C.I.R. v. de Vigier* (42 T.C. 24).

2. Interpretation of the Law

The Council notes that there is a tendency on the part of the Inland Revenue, where doubt arises regarding the meaning of the statute, to indicate that as a matter of practice it would be their intention to interpret the law in a certain way. This practice is, in the Council's view, undesirable. The statute ought to be amended to make clear its meaning, and the taxpayer should not require to rely on a certain interpretation by the Inland Revenue. The Council's point is illustrated by the question raised by Sir Hugh Munro-Lucas-Tooth during the Finance Bill debates on what is now section 25, subsection (4) of the Finance Act, 1965, and the reply which he received from the Chief Secretary.

II. COMPUTATION OF TAXABLE INCOME

3. Industrial and Commercial Buildings

The Council again draws to attention the absence of taxation allowances for the depreciation of non-industrial buildings. It feels that the recent enactments concerning minimum standards for offices will involve considerable expenditure and this emphasizes the disadvantages that office and commercial premises have in comparison with industrial buildings, resulting in inequity as between one taxpayer and another.

4. Disallowance of Certain Expenditure on Change of Ownership of a Business

The Council repeats the suggestion made in former years that the position arising under section 19 (1) of the Finance Act, 1953, as brought out in the case of *Bidwell v. Gardiner* (39 T.C. 31), is inequitable and urges that there is no logical reason why expenditure which would otherwise be allowable should be disallowed because of a notional discontinuance.

5. Subvention Payments

The Council regrets to note that, despite the amendments to the law contained in the Finance Act, 1965, the opportunity has not been taken to rectify the position whereby a subvention payment made after trade has ceased is not an allowable payment. It feels that any payment made within the normal statutory time limit should be allowable. The Council also considers that the position of subsidiary companies of a non-resident parent is anomalous in that subvention payments between such companies are not allowable. It feels that this is particularly undesirable since the anomaly can be remedied by inserting a British parent between the subsidiaries and the true parent and that such action by the taxpayer should not be necessary, solely for taxation reasons.

6. Contributions to Educational Projects

The Council again recommends that such contributions should be allowed in full, particularly in view of continued emphasis on higher education. It is understood that the situation concerning contributions to industrial training schemes is to be dealt with in the next Budget and it is hoped that the opportunity may be taken to widen the scope of the relief.

7. Money Lost by Defalcation

The Council notes with regret the recent decision in *Pyne v. Stallard-Penoyre's Executors* (42 T.C. 183), where rent money embezzled by an agent did not qualify as an expense. It hopes that amending legislation will be introduced to allow any such loss as an expense.

III. VARIOUS MATTERS

8. Close Companies

The Council is concerned at the uncertainties surrounding the identity of close companies, with the consequence that many companies may be inhibited from taking certain commercial actions. Further, auditors may find difficulty in knowing whether the accounts on which they are asked to report show a true and fair view in terms of the Companies Act, 1948. The fact that many companies are close companies within the definition in Schedule 18 of the Finance Act, 1965, is clear, but others while prima facie appearing not to be close companies may well in fact be so. A company has no right to obtain information as to who are the true owners of its shares. While this information is available as regards directors, it is not normally available for associates of directors, and the latter information is essential to a company in order to establish its status. It is appreciated that this information may in some cases be available to the Inland Revenue, but it is thought that the Revenue, under the provisions of section 4 of the Income Tax Management Act, 1964, would not be in a position to disclose it.

9. Time Limit for Partnership Changes

The Council is still of the opinion that the time limit of one year within which taxpayers require to elect under section 19 (3) of the Finance Act, 1953, following a change of partnership, is too short. The amendments introduced by section 46 of the Finance Act, 1963, appear to have removed the abuses which may have been prevalent in connection with partnership changes, and there seems no good reason why the election should require to be made before it is possible to know the effect of it. Further, the Council has had drawn to its attention hardships which arise through lack of knowledge of the law by the taxpayer: as, for example, persons in the fishing industry, where the ownership of shares in boats changes fairly frequently. The Council suggests that if the present time limit is to remain, the Revenue should be granted discretion to extend the time limit in cases of hardship. There is recent precedent for this, for example, in section 33 (3) of the Finance Act, 1965.

10. Short Interest

The Council again draws to attention the position of short interest as brought out in the case of *C.I.R. v. Frere* (42 T.C. 124). The anomalies arising should be remedied.

11. Housekeeper Allowances

It has been represented to the Council that hardship arises from the fact that it is not possible for a disabled person, unless he is a widower, to claim the housekeeper allowance, notwithstanding the fact that by having a resident housekeeper he may well reduce his dependence on public funds.

Capital Gains Tax and Corporation Tax

Scottish Institute's Memorandum to the Board of Inland Revenue

THE Council of The Institute of Chartered Accountants of Scotland has drawn to the attention of the Board of Inland Revenue the following points in the Finance Act, 1965, which it feels should receive urgent consideration.

CAPITAL GAINS TAX

1. Section 22

Subsection (3) (*c*) appears to provide, in effect, that compensation for loss of office amounting to less than £5,000 is liable to tax as a capital gain, since under section 38 (3) of the Finance Act, 1960, such compensation is not liable to income tax and section 27 (8) exempts compensation received in a profession or vocation which does not include an employment.

2. Section 25

(i) The Council's attention has been drawn to the letter written to *The Times* on October 26th, 1965, by Sir Hugh Munro-Lucas-Tooth regarding the interpretation of subsection (4) and the reply by the chief secretary. The Council trusts that it is not the intention to leave the law in this uncertain state and that steps are being taken to introduce a suitable amendment.

(ii) The Council feels that subsection (6) should be modified to allow trustees to elect not to have postponement of the revaluation until the lapse of fifteen years.

(iii) it is suggested that the provisions of subsection (9) are too widely drawn and could extend to the case of a genuine purchaser for value of property so that such a person could be charged to any capital gains tax not paid by the trustees. The Council feels that the present position is undesirable, and in this connection suggests that the insertion of the words 'for other than full consideration', which appear in certain other parts of the Act, would correct the position.

3. Section 34

The Council notes that the exemption under this section covers an individual who has owned a business or shares in a family trading company for a period of ten years. The position of an individual who has converted his business into a family trading company within the period of ten years does not seem to be covered. It is also noted that a person who has owned a business for nine years and eleven months receives no relief. It is felt that a tapering provision, as is provided in similar circumstances in most other cases in the Income Tax Acts, is desirable.

4. 6th Schedule

(i) The Council feels that the words 'shall not preclude' in paragraph 2 (3) may give rise to a double charge to tax where a lease is granted.

(ii) While acknowledging an interest in the matter, the Council regrets that the deductions authorized in paragraph 4 do not include fees incurred for maintaining records of acquisitions and disposals. It feels that the provisions of the Act make it necessary for many taxpayers to keep material records, the expense of which should be allowed as a deduction from chargeable gains.

5. Redundancy Payments

Payments under the Redundancy Payments Act, 1965, are to be exempted from income tax but it has not been made clear that there will be a similar exemption from capital gains tax. The Council suggests that this matter should be clarified.

6. General

The Council suggests, as a matter of urgency, that simplification of the Act should take place at an early date with regard to the question of quoted shares and part disposals. It is, in the opinion of the Council, anomalous that, for example, if 200 shares are bought for £200 and 100 of them are sold for £150, because of the part disposal rules the profit is not exactly £50.

CORPORATION TAX

7. Section 48

The Council notes that subsection (7) allows interest from a subsidiary to a parent company to be paid gross under election but not *vice versa*. It also notes the difference between interest and dividends, whereby dividends may be paid net if desired whether or not an election has been made, but that this does not appear to apply to interest.

8. Companies in Liquidation

The Council feels that the present provisions with regard to the date on which the rate of corporation tax is to be fixed will result in delay in completing the winding up of companies. It would seem that the completion of a liquidation must be postponed for a year awaiting ascertainment of its corporation tax liability. The Council suggests that a provision similar to that for surtax in the case of a deceased individual might go some way to meet this difficulty.

9. Subvention Payments

The Council notes, with regard to subvention payments, that no relief may be competent within a group if a company with a deficit has franked investment income.

10. Section 62

The Council notes that the provisions of section 62 concerning set-off (for example, of an underwriting loss) against investment income do not apply in the case of an overseas company and the reason for this distinction is not appreciated.

11. Franked Investment Income and Double Taxation Relief

It seems to the Council that the new rules which keep franked investment income separate will cause hardship in the case of a company entitled to double taxation relief.

Finance and Commerce

I·C·T

As befits a computer company, the accounts and attendant notes and schedules in the annual report of International Computers and Tabulators Ltd are fully detailed. In addition there is further supplementary information on the geographical sources of revenue, data processing equipment, land and buildings, plant and machinery items, and trade investments. There is also an analysis of ordinary shareholdings and of the number of employees at home and overseas.

A table of group financial statistics gives a six-year view of revenue and profit, disposal of profit, funds employed and their employment, trading cash inflow and the rate of equity earnings. The final page of the report is given over to detail of 'active subsidiary and associated companies'.

As will be seen from the reprint, the balance sheets are reduced to thirteen items, the numbers being immediately related to balance sheet notes which in the original cover four pages. The generous use of space, however, makes the notes easily read. The presentation of the accounts, however, is unfortunately more impressive than the story they tell.

Unsatisfactory year

It falls to Mr C. Mead, who became chairman and chief executive of the company just over three months before he reported to shareholders, to explain what he describes as 'a most unsatisfactory year financially' in which a fall of over £4 million in revenue, combined with continuing heavy expenditure resulted in a pre-tax loss of £509,000, and also in an increase in short-term borrowings of £2·2 million as a result of a build-up in stock and work in progress.

INTERNATIONAL COMPUTERS AND TABULATORS LIMITED AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 29th September, 1965

		1965 (52 weeks) £000	1965 (52 weeks) £000	*1964 (53 weeks) £000*	*1964 (53 weeks) £000*
	REVENUE AND PROFIT				
1	Revenue:				
	Rentals		17,950		*18,045*
	Sales of machines to leasing companies		7,425		*9,924*
	Sales of machines and cards, tapes, contract maintenance, revenue from service bureaux etc.		25,774		*29,738*
	Proceeds of discounting of future rentals		4,101		*1,788*
			55,250		*59,495*
	Less:				
	Depreciation of data processing equipment	7,175		*5,935*	
	Cost of sales, maintenance and overheads and the charges, *less* credit, referred to in the note opposite	46,983		*49,452*	
			54,158		*55,387*
2	Trading Surplus before Interest (see note opposite)		1,092		*4,108*
3	Income from trade investments		123		*171*
			1,215		*4,279*
4	Interest payable (see note opposite)		1,724		*1,686*
			(509)		*2,593*
5	Taxation (see note opposite)		Cr. 384		*Dr. 116*
6	Balance–loss (*1964 profit*) dealt with in parent Company's Accounts £438,000 (loss) (*1964 £1,800,000 profit*)		(125)		*2,477*
7	Profit from previous year		2,234		*976*
8	Available profit		2,109		*3,453*
9	Transfer to provision for contingencies (see Report of the Directors[1])		1,000		—
			1,109		*3,453*
10	Appropriations to Reserves (see note opposite)		193		*56*
			916		*3,397*
11	Dividends, *less* Income tax				
	Preference	14		*15*	
	Ordinary	834		*1,148*	
			848		*1,163*
12	BALANCE IN BALANCE SHEET		68		*2,234*

The notes [opposite] form an integral part of this Account.
NOTE: Figures in brackets indicate losses.

[1] *Not reproduced.* – Ed.

NOTES ON CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1965 (52 weeks) £000	*1964 (53 weeks) £000*
Items 1 and 2. TRADING SURPLUS		

The trading surplus has been arrived at after crediting the contribution from National Research Development Corporation of £1,000,000 (*1964 nil*) and after charging the following items:

	1965 (52 weeks) £000	*1964 (53 weeks) £000*
Depreciation:		
Data processing equipment	7,175	*5,935*
Other fixed assets	1,740	*1,772*
Auditors' remuneration (parent Company)	7	*7*
Staff retirement benefits	711	*676*
Emoluments of directors of parent Company:		
Fees	8	*8*
Other emoluments	135	*148*
Pensions to past directors	9	*15*
Compensation for loss of office	20	—
Excess manufacturing costs	1,015	*2,069*
Provision for exceptional obsolescence	—	*500*

The external income of service bureaux is included in Revenue; in the 1964 published Accounts this income was taken as a reduction of overheads. The comparative figures for 1964 have now been amended in accordance with the new form of presentation.

	1965 £000	*1964 £000*
Item 4. INTEREST PAYABLE		
Debenture Stock	1,110	*1,136*
Short term finance	614	*550*
	1,724	*1,686*
Item 5. TAXATION		
United Kingdom income tax recoverable	(403)	(328)
Transfer from Tax Equalisation Account	(511)	—
	(914)	*(328)*
Unrelieved Overseas Taxation	530	*444*
	(384)	*116*
Item 10. APPROPRIATIONS TO RESERVES		
Parent Company		
Capital Reserve	23	*13*
Subsidiaries		
Capital Reserves	70	*16*
General Reserves	100	*27*
	170	*43*
Total	193	*56*

NOTE: Figures in brackets indicate credits.

CONSOLIDATED BALANCE SHEET
29th September, 1965

		1965 £000	*1964 £000*
	FUNDS EMPLOYED		
1	Issued Share Capital	18,269	*18,269*
2	Capital Reserves	16,965	*16,877*
3	Revenue Reserves	3,401	*5,467*
	Shareholders Funds	38,635	*40,613*
4	Loan Capital—Secured	19,174	*19,332*
5	Short Term Finance	9,996	*7,759*
6	Minority Interest in Subsidiaries	407	*357*
	Total Funds	68,212	*68,061*
	REPRESENTED BY		
7	Current Assets	46,660	*44,160*
8	*Less* Current Liabilities	17,297	*14,838*
		29,363	*29,322*
9	Trade Investments	184	*212*
10	Data Processing Equipment	27,137	*28,105*
11	Other Fixed Assets	11,838	*11,695*
		68,522	*69,334*
13	*Less* Amounts set aside	310	*1,273*
		68,212	*68,061*

The relevant adjoining notes form an integral part of this Balance Sheet.

BALANCE SHEET NOTES

Item 1 SHARE CAPITAL

	1965 £000 Authorised	1965 £000 Issued & Fully Paid	*1964 £000 Authorised*	*1964 £000 Issued & Fully Paid*
6% Cumulative preference shares of £1 each	400	400	*400*	*400*
Ordinary shares of £1 each:				
Issued	17,869	17,869	*17,869*	*17,869*
Unissued	4,231	—	*4,231*	—
	22,100	17,869	*22,100*	*17,869*
	22,500	18,269	*22,500*	*18,269*

Included in the issued Ordinary shares are 1,275,000 shares issued to Ferranti Limited which are subject to certain restrictions as to dividend and capital until the end of 1966; as regards dividends, these shares rank only for a proportion of the full Ordinary dividend rate for each of the following I.C.T. financial years: year ended 29th September, 1965 at ½ of the full rate; year ending 28th September, 1966 at ¾ of the full rate.

Item 2 CAPITAL RESERVES

	Consolidated	Parent
Share Premiums		
Balance at 30th September, 1964	17,032	17,032
Other Capital Reserves:		
General		
Balance at 30th September, 1964	720	597
Capital profits, less losses, arising on sales of premises, etc.	(5)	50
	715	647
Development Rebate Reserve (India)		
Balance at 30th September, 1964	125	97
Transfer from Profit and Loss Account	93	23
	218	120
	17,965	17,799
Deduct: **Goodwill**	1,000	1,000
	16,965	16,799

Item 3 REVENUE RESERVES

			Consolidated	*Parent*
General	3,233	2,822	*3,233*	*2,822*
Transfer from Profit and Loss Account	100	—		
	3,333	2,822		
Profit and Loss Account	68	4	*2,234*	*2,312*
	3,401	2,826	*5,467*	*5,134*

The balance on revenue reserves retained by subsidiaries includes £655,000 (*1964 £611,000*) in respect of overseas subsidiaries which, if declared as dividends, would be subject to United Kingdom taxation, less double taxation relief.

NOTE: Figures in brackets indicate deductions.

Item 4 LOAN CAPITAL—SECURED

	1965 £000 Consolidated	1965 £000 Parent	*1964 £000 Consolidated*	*1964 £000 Parent*
4½% Debenture Stock 1975/80, repayable on 31.12.1980 at par	1,864	1,864	*1,912*	*1,912*
6% Debenture Stock 1975/80, repayable on 31.12.1980 at par	2,810	2,810	*2,920*	*2,920*
5½% Debenture Stock 1979/84, repayable on 30.9.1984 at par	4,000	4,000	*4,000*	*4,000*
6½% Debenture Stock 1981/86, repayable on 30.11.1986 at par	5,000	5,000	*5,000*	*5,000*
6% Debenture Stock 1983/88, repayable on 31.8.1988 at par	5,500	5,500	*5,500*	*5,500*
	19,174	19,174	*19,332*	*19,332*

The Debenture Stocks are redeemable at the Company's option as from the earlier of the years shown in each case above, at £101% in respect of the Stocks repayable on 31.12.1980 (which are also subject to annual sinking fund redemptions) and at par for the remainder. Trust deeds securing the Stocks give a floating charge on the whole of the Company's undertaking and assets.

Item 5 SHORT TERM FINANCE

	1965 Consolidated	1965 Parent	*1964 Consolidated*	*1964 Parent*
Bank overdrafts	2,870	2,080	*1,214*	*602*
Acceptance and other credit facilities	7,126	6,901	*6,545*	*6,295*
	9,996	8,981	*7,759*	*6,897*

Item 7 CURRENT ASSETS

	1965 Consolidated	1965 Parent	*1964 Consolidated*	*1964 Parent*
Stock and work-in-progress (including research expenditure £1,550,000—*1964 £1,538,000*) less progress payments £100,000 (*1964 £1,016,000*)	31,622	27,350	*27,435*	*23,316*
Debtors and prepayments	14,438	11,165	*16,037*	*13,173*
Bank and cash balances	600	441	*688*	*454*
	46,660	38,956	*44,160*	*36,943*

STOCK AND WORK-IN-PROGRESS. By the nature of the business it is not possible to apply a universal basis of valuation. Stock and work-in-progress of the parent Company and its subsidiaries have been valued on bases and by methods of computation which have been applied consistently, and which are appropriate to the circumstances of the business. The general basis of valuation is cost or realisable value, whichever is the lower.

BANK AND CASH BALANCES held by overseas branches and subsidiaries include £233,000 (*1964 £290,000*) the remittance of which is restricted.

Item 8 CURRENT LIABILITIES

	1965 £000 Consolidated	1965 £000 Parent	*1964 £000 Consolidated*	*1964 £000 Parent*
Creditors and accrued expenses	10,615	8,619	*7,894*	*6,645*
Taxation	625	406	*1,024*	*693*
Provisions:				
Obsolescence	4,164	3,743	*4,777*	*4,351*
Other (including contingencies)	1,476	1,519	*420*	*496*
Proposed final ordinary dividend	417	417	*723*	*723*
	17,297	14,704	*14,838*	*12,908*

Item 9 TRADE INVESTMENTS

These are shown at cost, less amounts written off.

Item 10 DATA PROCESSING EQUIPMENT

	1965 £000 Cost	1965 £000 Depreciation	1965 £000 Net Book Value	*1964 £000 Cost*	*1964 £000 Depreciation*	*1964 £000 Net Book Value*
Consolidated	54,995	27,858	27,137	*53,638*	*25,533*	*28,105*
Parent	41,144	21,897	19,247	*41,392*	*20,227*	*21,165*

Item 11 OTHER FIXED ASSETS

Consolidated						
Land and buildings	4,033	1,039	2,994	*4,111*	*1,136*	*2,975*
Plant and machinery, furniture, etc.	16,303	8,301	8,002	*15,444*	*7,408*	*8,036*
	20,336	9,340	10,996	*19,555*	*8,544*	*11,011*
Jigs and tools as valued			811			*625*
Patents at net book value			31			*59*
			11,838			*11,695*
Parent						
Land and buildings	2,624	876	1,748	*2,698*	*938*	*1,760*
Plant and machinery, furniture, etc.	13,179	6,763	6,416	*12,489*	*6,060*	*6,429*
	15,803	7,639	8,164	*15,187*	*6,998*	*8,189*
Jigs and tools as valued			701			*511*
Patents at net book value			31			*58*
			8,896			*8,758*

DEPRECIATION: The straight line basis of depreciation is used and the rate applicable to each asset category is that deemed appropriate.

Item 12 INTEREST IN SUBSIDIARY COMPANIES

	1965 £000 Parent	*1964 £000 Parent*
Shareholdings at cost, less provisions and amounts written off	4,516	*4,418*
Amounts owing by subsidiaries	9,474	*8,740*
	13,990	*13,158*
Amounts owing to subsidiaries	184	*186*
	13,806	*12,972*

Item 13 AMOUNTS SET ASIDE

	1965 £000 Consolidated	1965 £000 Parent	*1964 £000 Consolidated*	*1964 £000 Parent*
Development Account				
Balance brought forward	442	442	*442*	*442*
Less: Transfer to Obsolescence Provision	442	442	—	—
	—	—	*442*	*442*
Other Amounts				
Tax Equalisation Account	9	—	*520*	—
Staff Supplementary Retirement Benefits	301	301	*311*	*311*
	310	301	*831*	*311*

TAX EQUALISATION ACCOUNT: The deferred liability for taxation is now assessed on a Group basis on the excess of capital allowances over depreciation provided, less the estimated relief expected to accrue when certain provisions are utilised.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Commitments of a capital nature for fixed assets not provided for in the accounts amount to	990	870	*1,091*	*783*

In addition there were at the date of the Balance Sheet:

(*a*) Outstanding commitments in the ordinary course of business for data processing equipment which may be placed on rental.

(*b*) A contingent liability arising from the possible repurchase of data processing equipment sold to leasing companies.

(*c*) Contingent liabilities of £4,863,000 (*1964 £2,729,000*) in respect of rental contracts and bills of exchange discounted.

(*d*) Guarantees of £2,392,000 (*1964 £1,786,000*) by the parent Company in respect of bank overdrafts and other credit facilities of certain overseas subsidiaries, and guarantees of £22,000 (*1964 £52,000*) given by subsidiaries.

(*e*) Commitments under the Agreement with the National Research Development Corporation are referred to in the Report of the Directors.

CONVERSION OF FOREIGN ASSETS AND LIABILITIES

Foreign currencies have been converted into sterling at the exchange rates ruling at 29th September, 1965.

GROUP FINANCIAL STATISTICS

REVENUE AND PROFIT	*1960 £000*	*1961 £000*	*1962 £000*	*1963 £000*	*1964 £000*	**1965 £000**
Revenue	*24,504*	*28,116*	*31,071*	*40,156*	*59,495*	**55,250**
Trading surplus subject to depreciation	*7,916*	*9,624*	*11,169*	*11,654*	*11,986*	**10,130**
Depreciation	*4,158*	*5,341*	*6,816*	*7,766*	*7,707*	**8,915**
Trading surplus	*3,758*	*4,283*	*4,353*	*3,888*	*4,279*	**1,215**
Interest	*806*	*965*	*1,238*	*1,491*	*1,686*	**1,724**
Taxation	*1,026*	*946*	*813*	*235*	*116*	**(384)**
Transfer to Development Account/Obsolescence Reserve	*500*	*800*	*1,000*	*960*	—	—
Balance of profit	*1,426*	*1,572*	*1,302*	*1,202*	*2,477*	**(125)**

Note: The above figures do not take account of the sums charged against the Development Account or reserves in 1961 and 1963.

DISPOSAL OF PROFIT	*1960*	*1961*	*1962*	*1963*	*1964*	**1965**
Preference dividends (net)	*15*	*15*	*15*	*15*	*15*	**14**
Ordinary dividends (net)	*689*	*861*	*873*	*1,100*	*1,148*	**834**
Retained in business (in addition to amounts transferred to Development Account and to Obsolescence Reserve, as above)	*722*	*696*	*414*	*87*	*1,314*	**(973)**
	1,426	*1,572*	*1,302*	*1,202*	*2,477*	**(125)**

FUNDS EMPLOYED	*1960*	*1961*	*1962*	*1963*	*1964*	**1965**
Issued capital	*10,400*	*12,900*	*13,175*	*16,369*	*18,269*	**18,269**
Reserves	*10,679*	*13,846*	*14,658*	*19,524*	*22,344*	**20,366**
Loan capital and short term finance	*16,813*	*16,262*	*25,965*	*26,841*	*27,091*	**29,170**
Minority interest	*54*	*106*	*154*	*128*	*357*	**407**
	37,943	*43,114*	*53,952*	*62,862*	*68,061*	**68,212**

REPRESENTED BY	*1960*	*1961*	*1962*	*1963*	*1964*	**1965**
Net current assets	*16,197*	*17,304*	*24,019*	*24,358*	*29,322*	**29,363**
Trade investments	*176*	*180*	*62*	*61*	*212*	**184**
Data processing equipment	*18,400*	*21,649*	*24,197*	*28,549*	*28,105*	**27,137**
Other fixed assets	*6,540*	*8,082*	*10,905*	*11,026*	*11,695*	**11,838**
	41,313	*47,215*	*59,183*	*63,994*	*69,334*	**68,522**
Less: Amounts set aside	*3,370*	*4,101*	*5,231*	*1,132*	*1,273*	**310**
	37,943	*43,114*	*53,952*	*62,862*	*68,061*	**68,212**

TRADING CASH INFLOW	*1960*	*1961*	*1962*	*1963*	*1964*	**1965**
Retained profits	*722*	*696*	*414*	*87*	*1,314*	**(973)**
Depreciation	*4,158*	*5,341*	*6,816*	*7,766*	*7,707*	**8,915**
Development Account/Obsolescence Reserve	*500*	*800*	*1,000*	*960*	—	—
Excess production costs charged to Development Account	—	—	—	*(1,048)*	—	—
Tax Equalisation Account	*250*	*325*	*161*	*(433)*	*138*	**(511)**
	5,630	*7,162*	*8,391*	*7,332*	*9,159*	**7,431**

EQUITY	*1960*	*1961*	*1962*	*1963*	*1964*	**1965**
Rate of dividend per £1 Ordinary share (gross)	*2s. 3d.*	*2s. 3d.*	*2s. 3d.*	*2s. 3d.*	*2s. 3d.*	**1s. 8d.**
Cover for net dividend (times) before charging transfer to Development Account	*2·63*	*2·74*	*2·62*	*1·95*	*2·14*	—

NOTE: Items in brackets indicate negative figures.

One of the main reasons was the heavy spending entailed in building up, within the company, the resources needed to produce the new types of equipment in the company's *1900* series of computers and to increase the supporting services. Because these moves had to be made so as to get the best advantage from the very full order book, expenses could not be kept down to a level matching the smaller revenue.

There was also a significant loss in the planned output of punched card and ancillary equipment, mainly because of problems associated with the rapid expansion of production of computers so soon after the previous contraction in punched-card equipment. Revenue also fell away in the second half of the year because of lower deliveries of earlier types of computers pending the introduction of the *1900* series, and the time lag inherent in building up an adequate flow of deliveries of, and revenue from, the new equipment.

Government money

The trading surplus for the past year takes account of the benefit of £1 million received as the first instalment from the National Research Development Corporation which is to contribute a maximum of £5 million to the company by September 1968. In return, the company is to make payments to N.R.D.C. for I·C·T's financial year to September 30th, 1970, and for each of the next six years. Each payment will be on a scale related to the year's trading profit. If total payments by I·C·T over the seven years fall short of an agreed minimum, there may be further payments over not more than the next two years to provide N.R.D.C. with up to half the shortfall.

I·C·T has the right to end the agreement by paying N.R.D.C. a sum equal to the difference between the Corporation's contributions, plus interest, and any payments already made by I·C·T, plus interest. N.R.D.C. has the right to terminate the agreement and to claim lump-sum payments from I·C·T if certain events occur at any time without its approval – such events being a change in control of I·C·T or the group selling the whole or a major part of its business.

Money, as those who have plenty of it always say, isn't everything. And Government money is not everything, as Mr Mead points out in welcoming the Government's £5 million of available funds. He says: 'More definite support in the form of orders would be particularly welcome, for the Government's record on this has been disappointing so far.'

Prospects

The current year's prospects turn on how soon the build-up of *1900* computer deliveries can offset the continuing trend of the second half of the past year, and the extent to which the general position can be improved by the 'firm measures' taken to secure the right balance of business and to ease the liquidity strain. Capital spending and stock and work in progress levels are being 'most strictly controlled', and overheads are being reduced to keep spending at an economic level without impairing efficiency.

By the end of the current year, the board is confident that profitability and liquidity should, all being well, 'show a substantial improvement'; but Mr Mead stresses the point that the budget shows that the anticipated improvement 'cannot be expected to appear until the second half of the year'.

CITY NOTES

WITH the equity market at a 1965–66 high point there is a marked reappraisal of stock-market conditions and prospects. Even brokers who were forecasting the worst only a few months back are now foreseeing a strong equity market for some considerable time ahead.

One influential stockbroking firm considers that 'one clear lesson of recent market action is that a material fall in share prices, which has been widely anticipated in many quarters, seems extremely unlikely'. This year's Budget is likely, at best, to be neutral but the brokers, despite that position, consider 'it would be extremely optimistic to believe that one only has to wait for shares to come back'.

The longer the market holds firm at present levels 'the nearer,' it is judged, 'the rise in anticipation of the next upswing of the economy and profits,' and so 'investment of any liquid funds now seems the right course'.

Comment on these lines, although not necessarily at such strength, is commonplace although there is still some doubt on the Budget point. If the Budget increases the weight of individual and corporate taxation still further, however, a basically optimistic stock-market might be inclined to translate higher taxation into terms of a higher rate of inflation. It is debateable whether higher prices for equities are being brought about by fear of inflation or confidence in the economy. But those who have been begging for higher prices are unlikely to be choosy about the cause.

RATES AND PRICES

Closing prices, Tuesday, February 8th, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Dec. 3 ..	£5	7s	5·32d%	Jan. 7 ..	£5	10s	5·20d%
Dec. 10 ..	£5	9s	4·64d%	Jan. 14 ..	£5	9s	9·73d%
Dec. 17 ..	£5	10s	3·74d%	Jan. 21 ..	£5	9s	0·33d%
Dce. 23 ..	£5	10s	5·88d%	Jan. 28 ..	£5	9s	8·03d%
Dec. 31 ..	£5	10s	5·08d%	Feb. 4 ..	£5	10s	1·22d%

Money Rates

Day to day ..	4⅜–5⅝%	*Bank Bills*	
7 days	4¼–5¼%	2 months ..	5⅞–5 15/16%
Fine Trade Bills		3 months ..	5⅞–5 15/16%
3 months ..	7–7½%	4 months ..	5⅞–5 15/16%
4 months ..	7–7½%	6 months ..	5⅞–5 15/16%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2·80 5/16	Frankfurt ..	11·25 31/32
Montreal ..	3·01 17/32	Milan	1752 5/8
Amsterdam ..	10·15 31/32	Oslo	20·03
Brussels	139·32	Paris	13·74 5/32
Copenhagen ..	19·33¼	Zürich	12·13 11/32

Gilt-edged

Consols 4% ..	59¾	Funding 6% 1993 ..	91½xd
Consols 2½% ..	38 11/16	Savings 3% 60–70 ..	86 9/16
Conversion 3½% ..	54	Savings 3% 65–75 ..	75 9/16
Conversion 5% 1971	94 7/16	Treasury 6½% 1976	100½
Conversion 5¼% 1974	93 9/16	Treasury 3½% 77–80	74 9/16
Conversion 6% 1972	98 13/16	Treasury 3½% 79–81	71 13/16
Funding 3½% 99–04	58¾	Treasury 5% 86–89	83
Funding 4% 60–90	94¾	Treasury 5½% 08–12	83½
Funding 5¼% 78–80	88⅞	Treasury 2½% ..	38¾
Funding 5½% 82–84	89⅛	Victory 4%	95⅞
Funding 5¼% 87–91	91⅞	War Loan 3½% ..	53 5/16

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Since we were founded in 1945, with the backing of the Bank of England and the Clearing Banks, we have helped over 1,600 companies; we are currently investing over a million pounds a month. We also offer plant purchase and plant leasing schemes, and help with such matters as stock exchange flotations. Our rates are keyed to those current elsewhere in the capital market and, although we make certain that every customer gets the help he needs in a form that ensures healthy growth without financial strain, we seek no interference in company affairs.
If you are a company which wants to grow, we may be able to help you with an investment which could be anything from £5,000 to £300,000 on first application. Send for our booklet, *Capital for Business*. Then come and talk to us about your specific needs.

ICFC

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Piercy House, 7 Copthall Avenue, London EC2
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Correspondence

Business Ratio Models

SIR, – Readers of Mr Mullin's article on 'Business ratio models' in your issue of January 29th may not be aware of the fact that firms in more than sixty industries in Great Britain are taking part in interfirm comparisons of management ratios organized by numerous trade associations and by the Centre for Interfirm Comparison Ltd.

These bodies have during the last eighteen years carried out intensive research and practical development work in the fields referred to by Mr Mullin.

His article may prompt some of your readers to seek information on whether ratio comparisons are carried out in their own industry or trade, and what methods are used to ensure comparability of the figures contributed by different firms. The Centre will be pleased to give inquirers information on these and other related points.

Yours faithfully,
H. INGHAM
Director
CENTRE FOR INTERFIRM COMPARISON LTD.
80 Fetter Lane, London EC4.

New Investment Incentives and Close Companies

SIR, – Arising out of recent correspondence in *The Financial Times*, I have tried to compare the tax bite on close companies and I give some figures below. In the correspondence referred to an investment of £50,000 in equipment carrying an annual allowance of 20 per cent was assumed. I have further assumed a one-man close company earning profits of £50,000 per year before capital allowances, and a sole director earning between £2,000 and £5,000 per annum receiving such dividends as must be declared to avoid direction under sections 77 and 78 of the Finance Act, 1965.

Under the old system initial investment and annual allowances for the first year would be £30,000 (60 per cent of £50,000) Under the new system a grant of £10,000 would be received and only the annual allowances of 20 per cent of the net cost of £40,000 would be available. The Schedule F cost of a dividend (assuming corporation tax at 40 per cent) is approximately 15 per cent being 8*s* 3*d* in the £ on 60 per cent of 60 per cent.

Although these may be extreme figures, I think the trend to a larger tax percentage of profits without increasing the rates of tax is clear, and smaller figures would show the same inclination unless the investment qualifying for grant was very high in relation to the profits earned, in which case the equipment would not be earning its keep and so would probably not be bought.

There is, of course, the question of administration – in the past it has been comparatively simple for public accountants to agree investment allowances with the local Inspector of Taxes on production of the appropriately signed certificate with, if necessary, supporting vouchers. If the pattern of subsidy claims in the farming industry etc. is to be followed in respect of new equipment, then presumably the taxpayer will have to complete a form for each new item or batch of items and submit it to the appropriate department of the Board of Trade and will probably have a fair amount of consequent correspondence. There would also seem to be more opportunities for abuse and fraud in the proposed subsidy system quite apart from any political question of discrimination between industries which qualify and those which do not, between investment that qualify and those which do not, and between development areas and ordinary areas.

System	*Old* £	*New* £
Assume profits	50,000	50,000
Capital allowances (first year of purchase)	30,000	8,000
	£20,000	£42,000
	£	£
Corporation tax – 40 per cent	8,000	16,800
Schedule F on dividends – 15 per cent	3,000	6,300
	11,000	23,100
Grant received		10,000
		13,100
Surtax on dividend of £7,200 and of £15,120 If one-man company	1,890	4,520
Total tax less grant	£12,890	£17,620

Yours faithfully,
Manchester. J. ROSS, F.C.A.

Capital Gains Computations

SIR, – That expenses incurred directly in share transactions can be taken into consideration in computing taxable gains and allowable losses is not a matter of dispute. As yet, however, there seems to have been little comment on how the cost of a purchase should be determined in cases when it is proper to use the Budget day valuation.

There seem to me to be three possibilities:

(1) To ignore expenses, considering the outlay to be simply the Budget day value, i.e. the product of the Budget day price and the number of shares involved.

Mr Jeffrey-Cook appears to have followed this procedure in the second example in his suggested 'Capital gains card and forms' in the February issue of *Accountancy*.

(2) To add, to the budget day value, the actual expenses originally incurred.

(3) To add, to the Budget day value, expenses calculated on a purchase as at Budget day.

The general understanding that an individual is deemed to have disposed of, and reacquired, his shares on Budget day seems to point to the last of the above suggestions.

Yours faithfully,
DAVID WORRALL.

Glossop, Derbyshire.

Fixtures and Fittings

SIR, – We shall be grateful to have the views of readers as to whether the costs of shop fronts, electrical wiring and special fitments relating to a retail shop should be regarded as part of the furniture, fixtures and fittings of the company, and as to how these should be shown in the balance sheet.

It is appreciated that these items are landlord's fixtures and cannot be removed, but the basis on the balance sheet will be in respect of the balance sheet of a going concern which is in occupation of these premises.

Yours faithfully,
SHOP FRONTS.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

J. O'Mullan & Company *v.* Walmsley

In the High Court of Justice in Northern Ireland (Queen's Bench Division) – November 19th, 1965

(Before Mr Justice LOWRY)

Income tax – Building and civil engineering directors – Partnership of husband and wife – Both employed before marriage – No notice of chargeability to tax in respect of the business – Payment of Schedule A tax – Accountant informing inspector of chargeability – Assessments not expressed to make good loss to Crown – Whether assessments valid – No fraud or wilful default – Income Tax Act, 1952, section 47 (1) – Finance Act, 1960, sections 51, 52 and 63.

The taxpayers, husband and wife, married in 1945 and established a business in partnership as building and civil engineering contractors. They did not give notice of chargeability to income tax, but in 1956 their accountant wrote to the inspector of taxes and submitted trading accounts. The taxpayers had paid Schedule A tax since 1952–53. In 1958 an assessment was made on the partnership for 1951–52 and that assessment was not in dispute. In 1962 assessments were made for 1945–46 to 1950–51 on the footing that there had been fraud or wilful default or, alternatively, that there had been neglect within section 51 of the Finance Act, 1960. The Special Commissioners decided that: 'At the least the appellants were guilty of neglect within the definition contained in section 63 (1) of the Finance Act, 1960, for all relevant years, in failing to give notice of chargeability to tax in respect of the partnership profits.'

It was contended on behalf of the taxpayers that it had not been shown that the assessment for 1951–52 was for the purpose of making good to the Crown a loss of tax wholly or partly attributable to the fraud, wilful default or neglect of any person; and that accordingly there was no right to make assessments for earlier years on the basis of neglect.

It was contended for the Revenue that section 51 (1) was satisfied by any assessment, provided that the loss to be recovered by the assessment was in fact attributable to the taxpayer's fraud, wilful default or neglect.

Held: there was no evidence that the assessment for 1951–52 was made for the purpose of making good to the Crown a loss of tax caused by the taxpayer's fraud, wilful default or neglect; and that therefore there was no root of title for the making of the assessment for the earlier years.

Davies *v.* Davies, Jenkins & Company Limited

In the High Court of Justice (Chancery Division) December 21st, 1965

(Before Mr Justice STAMP)

Income tax – Subvention payment – Cessation of recipient's trade before payment – Whether subvention payment deductible by payer – Finance Act, 1953, section 20 – Finance Act, 1954, section 18.

The appellant company made payments to another company, and the payments qualified as subvention payments for the purposes of section 20 of the Finance Act, 1953, subject to the question whether the payments were invalid because they had been received by the other company after it had ceased to trade. The Special Commissioners decided that the payments ranked as subvention payments.

Held: subsection (9) of section 20 of the Finance Act, 1953, when read with subsection (1) thereof, imposes the qualification that the recipient company should be trading at the date of the receipt of the sum claimed to be a subvention payment; and that therefore the sum in question in this case was not such a payment.

The Institute of Chartered Accountants in England and Wales

Special and Ordinary Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, February 2nd, 1966, there were present:

Mr Robert McNeil, President, in the Chair; Sir Henry Benson, C.B.E., Vice-President; Messrs J. F. Allan, G. R. Appleyard, W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, C. J. M. Bennett, Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, R. W. Cox, C. Croxton-Smith, W. G. Densem, S. Dixon, J. V. Eastwood, Sir Harold Gillett, Bt, M.C., Messrs J. Godfrey, L. C. Hawkins, C.B.E., J. S. Heaton, J. A. Jackson, A. W. John, O.B.E., H. O. Johnson, R. G. Leach, C.B.E., R. B. Leech, M.B.E., T.D., E. N. Macdonald, D.F.C., R. P. Matthews, D. S. Morpeth, W. Bertram Nelson, C.B.E., F. E. Price, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, R. G. Slack, A. G. Thomas, A. H. Walton, F. J. Weeks, E. F. G. Whinney, J. C. Montgomery Williams, E. K. Wright, Sir Richard Yeabsley, C.B.E.

Resignation from the Council

The Council received with much regret the resignation of Mr R. P. Winter, C.B.E., M.C., T.D., D.L., F.C.A., Newcastle upon Tyne, from his membership of the Council. Mr Winter had been a member of the Council since 1952 and was President for the year 1963–64.

Statements on auditing: qualifications in auditors' reports

The Council approved a statement on auditing, No. 6, *Qualifications in auditors' reports*, for publication and circulation to members for inclusion in the *Members' Handbook*.

The statement is reproduced in full on pages 191–194 of this issue.

Taxation anomalies and practical difficulties

It was reported that a memorandum dealing with some anomalies and practical difficulties arising from the capital gains tax and corporation tax provisions of the Finance Act, 1965, had been submitted to the Chairman of the Board of Inland Revenue on January 31st, 1966.

Law Commission

The Council approved for submission to the Law Commission (set up under the Law Commissions Act, 1965) a memorandum on the subject of the remedy of distress for rent, which had been prepared at the request of the Law Commission in connection with its present examination of the law of landlord and tenant.

Special degree course

Bristol College of Science and Technology (proposed University of Bath)

It was reported that the Bristol College of Science and Technology (expected shortly to receive its charter of incorporation as a university) was introducing a degree course embracing the study of accountancy, economics and law. The course was approved by the Council for inclusion in the next edition of the booklet *The Universities and the Accountancy Profession* with the other special degree courses. Graduates who have followed these courses will be eligible to claim exemption from the intermediate examination in addition to the reduction of two years in articled service available to any graduate of a United Kingdom university.

Examination results – November 1965

It was reported that the results of the examinations held in November 1965 were as follows:

New Final:	*Passed*	*Failed*	*Total*
Part I	822	840	1,662
Part II	25	21	46
Old Final	1,094	1,208	2,302
	1,941	2,069	4,010

The names of the successful candidates and of those placed in order of merit and awarded prizes are published as a supplement to this issue.

Articles and examinations

It was reported that the following applications under various bye-laws relating to articles and examinations had been granted or refused during the six months ended December 31st, 1965:

	Granted	*Refused*
Bye-law 48: Permission to take an articled clerk for the first time	170	1
Bye-law 50: Additional articled clerks	12	1
Bye-law 52 (c): Granting of a Preliminary Certificate by virtue of age and experience	28	3
Bye-law 54: Waiver of prescribed provisions in articles ..	2	–
Bye-law 64 (a): Reduction in period of service under articles – overseas graduates	36	–
Bye-law 64 (b): Reduction in service under articles ..	22	3
Bye-law 65 (c): Reduction in service under articles for former regular officers	2	–
Bye-law 66: Permission to follow another business or occupation while under articles to the limited extent specified in the application	18	2
Bye-law 67 (b) (iv): Permission to spend up to six months in an industrial, commercial or other suitable organization during articled service	15	1
Bye-law 84 (a): Permission to sit the Intermediate examination earlier than normally eligible ..	4	9
Bye-law 88 (b): Exemption from the Intermediate examination	13	8

The P. D. Leake Trust

The Council approved for publication a booklet containing the accounts of the P. D. Leake Trust for the year ended October 31st, 1965, a report on the administration of the trust and the thirteenth report of the P. D. Leake Committee. The booklet may be obtained without charge on application to the offices of the Institute by any interested person.

Admission to membership

The following was admitted to membership of the Institute:

Dorman, Miles Swinford, A.C.A., *a*1966; with Price Waterhouse & Co, 47 Ave de l'Opera, Paris 2e.

Fellowship

The Council acceded to applications from twenty-six associates to become fellows under clause 6 of the supplemental Royal Charter.

Members commencing to practise

The Council received notice that the following members had commenced to practise:

Andrew, John Ian, B.SC.(ECON.), F.C.A., *aS*1954; *Cooper Brothers & Co (an unlimited company), Abacus House, 33 Gutter Lane, Cheapside, London EC2.

Atkins, William Charles, A.C.A., *a*1965; W. T. Flower & Co, 19 St Georges' Road, Wimbledon, London SW19.

Bailey, John Travis, A.C.A., *a*1960; *Kenneth G. Snowden, Allatt & Co, The Modern Centre, Moor Lane, Preston.

Barratt, Eric George, A.C.A., *a*1960; †Tansley Witt & Co, 28 Ely Place, London EC1.

Bateson, Robin Trevor, A.C.A., *a*1960; Everett, Pinto & Co, Chile House, 20–24 Ropemaker Street, Moorgate, London EC2.

Blundell, Henry, A.C.A., *a*1958; Loveridge & Moore, 40 Hoghton Street, Southport, Lancs.

Blyth, John David Finlay, A.C.A., *a*1963; W. T. Flower & Co, 19 St Georges' Road, Wimbledon, London SW19.

Bowkett, Edward Walter, A.C.A., *a*1965; L. W. Stone, Watson & Co, 177 Corporation Street, Birmingham 4.

Bradshaw, Raymond John, A.C.A., *a*1959; †Lindsay, Jamieson & Haldane, 110 Cannon Street, London EC4.

Breathwick, Leslie, A.C.A., *a*1965; Thornton Baker & Co, 8 West Walk, Princess Road, Leicester.

Briggs, Ronald Gaunt, A.C.A., *a*1961; Heap, Harrison & Co, Equity Chambers, 40 Piccadilly, Bradford 1.

Brittain, John Jeremy Mitchell, A.C.A., *a*1959; Nuttall, Royle & Brittain, 19 Hyde Road, Denton, Manchester.

Brookland, Alan William, F.C.A., *a*1948; *Cooper Brothers & Co (an unlimited company), Abacus House, 33 Gutter Lane, Cheapside, London EC2.

Burrows, Anthony Hugh, A.C.A., *a*1963; C. Bertram Burrows & Co, 10A Grange Road West Kirby, Wirral, Cheshire.

Bush, John Antony, A.C.A., *a*1964; Lonsdale & Marsh, 17 Harrington Street, Liverpool 2.

Chamberlain, Michael Aubrey, A.C.A., *a*1953; Baker Bros, Halford & Co, Arlen House, Salisbury Road, Leicester.

Chandler, Bernard Henry, A.C.A., *aS*1956; Sharp, Parson, Tallon & Co, 5 Laurence Pountney Hill, London EC4.

Cole, Antony Edward, A.C.A., *a*1962; Jackson, Holledge & White, Midland Bank Chambers, 81 Queens Road, Clifton, Bristol 8.

Cole, David Peter Edwards, A.C.A., *a*1963; Alban & Lamb, 28 Churchill Way, Cardiff.

Cowper, John Whitbourne, A.C.A., *a*1956; Derbyshire & Co, Hanover House, 73/78 High Holborn, London WC1.

Cox, John Charles Wormleighton, A.C.A., *aS*1956; Cooper Brothers & Co, Abacus House, Gutter Lane, Cheapside, London EC2.

Coyle, Bryan Melvyn Edward, A.C.A., *a*1960; Briant & Co, 2/3 Claremont, Hastings, Sussex.

Curwin, Roger Nigel, A.C.A., *a*1964; David Kroll & Co, 166 Piccadilly, London W1.

Day, Leonard Henry, A.C.A., *a*1960; Barton, Mayhew & Co, Regency House, St Helier, Jersey.

Dicken, Terence Hugh Charles, A.C.A., *a*1965; Jeffreys, Littlejohn & Co, 22 Billiter Street, London EC3.

Donovan, John Edward, F.C.A., *a*1956; 56 Molesey Park Road, East Molesey, Surrey.

Elphick, David John, A.C.A., *a*1959; Jeffreys, Littlejohn & Co, 22 Billiter Street, London EC3.

Flanagan, John Thomas, A.C.A., *a*1963; Wootton, Pattinson & Handley, 17 St Peter Street, Winchester.

Freed, Wallace Michael, A.C.A., *a*1965; Wallace M. Freed & Co, 25 Pasture Close, North Wembley, Middx.

Gravelius, Alan Jakob, A.C.A., *a*1961; Miller, Strong, & Co, 37/39 High Holborn, London WC1.

Griffiths, Leslie Gordon, A.C.A., *a*1961; Slaney, Kennewell, Pick & Co, Bank Chambers, The Square, Retford, Notts.

Harris, David Kenneth, A.C.A., *a*1961; Stoy, Hayward & Co, 97 and 99 Park Street, London W1.

Harris, Donald Charles Bennett, A.C.A., *a*1965; D. C. B. Harris & Co, 9 Guild Street, Stratford-upon-Avon.

Hill, Ronald Alfred, F.C.A., *aS*1949; Futcher, Head, Smith & Co, Broad Street House, 54 Old Broad Street, London EC2.

Hilton, Albert, F.C.A., *aS*1954; Cooper Brothers & Co, Buckley & Hughes and Coopers & Lybrand, Collins House, 360 Collins Street, Melbourne C1.

Hudson, Stanley Herbert, F.C.A., *aS*1951; †Armitage & Norton, Atlas Chambers, King Street, Leeds 1.

Hughes, John Allen, A.C.A., *a*1960; R. Lunt Roberts, Hughes & Co, 233/235 High Street, Bangor, Caerns.

Jarrett, Leslie John, F.C.A., *aS*1948; MacIntyre, Hudson & Co, 10 Longport Street, Canterbury, Kent.

Josephy, Albert Wrightson, F.C.A., *a*1938; 'Woodland Crag', Grasmere, Westmorland.

Kemp, (Miss) Barbara Ann, A.C.A., *a*1958; Futcher, Head, Smith & Co, Broad Street House, 54 Old Broad Street, London EC2.

Kondratiuk, Joseph Wladyslaw, LL.M., A.C.A., *a*1960; J. W. Kondratiuk & Co, Perryn House, 70 Perryn Road, London W3.

Kulig, Adam, B.COM., A.C.A., *a*1958; Everett, Pinto & Co, Chile House, 20/24 Ropemaker Street, Moorgate, London EC2.

Lawrence, Peter, F.C.A., *a*1956; R. H. March, Son & Co, 21 College Hill, Cannon Street, London EC4.

Macaulay, George Franklin, A.C.A., *a*1962; Neville Russell & Co, 11 Poultry, London EC2.

Malcolm-Smith, Bernard Malcolm, F.C.A., *a*1940; Baldwin & Son, Moore's Chambers, London Road, Sunningdale, Berks.

Menezes, Michael Patrick, A.C.A., *a*1963; Waight & Co, 1 Newman Road, Bromley, Kent.

Milsom, Sydney Follwell, F.C.A., *a*1921; Ham, Jackson & Brown, Albion Chambers, Bristol 1.

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a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of chartered accountant members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Mitchell, Fraser, F.C.A., $aS1951$; *Cooper Brothers & Co (Midlands) (an unlimited company), Lyndon House, Hagley Road, Edgbaston, Birmingham 16.

Molyneux, Wilfrid, F.C.A., $a1934$; *Cooper Brothers & Co (an unlimited company); Abacus House, Gutter Lane, Cheapside, London EC2.

Muggridge, Frank, F.C.A., $aS1949$; Gillespie Brothers & Co, 43 Chandos Place, London WC2.

Neal, Ronald Charles, F.C.A., $aS1938$; Derek Webster & Co, Baker Street, Chambers, 136 Baker Street, London W1.

Pamment, Cyril Raymond, F.C.A., $a1950$; Ensor, Son & Goult, 86 Whiting Street, Bury St Edmunds, Suffolk.

Parry, David, B.SC., A.C.A., $a1965$; Beever & Struthers, 28 Booth Street, Manchester 2.

Raitz, Gerald Norman, F.C.A., $a1951$; Angus, Campbell & Co, Ling House, 10/13 Dominion Street, London EC2.

Ravenscroft, Frank Alan, F.C.A., $a1950$; Cooper Brothers & Co, Barnett House, 53 Fountain Street, Manchester 2.

Redding, Donald Thomas, A.C.A., $a1960$; Alban & Lamb, 28 Churchill Way, Cardiff.

Ridehalgh, Duncan James, A.C.A., $a1962$; Lonsdale & Marsh, 17 Harrington Street, Liverpool 2.

Rigby, Brian Keith, B.A.(COM.), A.C.A., $a1959$; Bennett & Bennett, 3 Springfield Street, Warrington, Lancs.

Scammell, Stanley Thomas, A.C.A., $a1961$; 'Ashlea', Blackboy Lane, Fishbourne, Chichester, Sussex.

Shaw, Anthony, B.A.(COM.), A.C.A., $a1962$; Beever & Struthers, 28 Booth Street, Manchester 2.

Sibley, John Harry, A.C.A., $a1959$; Ham, Jackson & Brown, Albion Chambers, Bristol 1.

Smith, Cyril Joseph, F.C.A., $a1940$; Wenn, Townsend & Co, 1 Stert Street, Abingdon.

Smith, Walter John George, A.C.A., $a1965$; Norton, Slade & Co, 453 Salisbury House, London Wall, London EC2.

Sprawson, David Anthony, A.C.A., $a1961$; *Barker, Maule & Co, 27–29 Castle Gate, Newark, Notts.

Stewart, Malcolm de Mowbray Adam, A.C.A., $a1959$; Macnair, Mason, Evans & Co, Capel House, 62 New Broad Street, London EC2.

Tattersall, John Charles, F.C.A., $a1937$; Simon Jude & West, Lloyds Bank Buildings, 11/13 Victoria Street, Liverpool 2.

Taylor, John Edward, A.C.A., $aS1956$; John E. Taylor & Co, 19 Boxalls Grove, Aldershot, Hants.

Thomas, Andrew Gerald, A.C.A., $a1964$; Banner, Spencer, Walker & Moors, Harley Buildings, 11 Old Hall Street, Liverpool 3.

Thornton, Michael, A.C.A., $a1962$; 50 Fairfield Drive, Tynemouth, Northumberland.

Walters, Arthur Paul Goth, F.C.A., $aS1936$; 10 Manorside, Barnet, Herts.

Ward, Anthony Phillip, A.C.A., $a1965$; Ward & Co, 6 Heath View, London N2.

Wates, Hugh Randall, A.C.A., $a1961$; Allfields, Coventry House, South Place, Moorgate, London EC2.

Weston, William Talbot, F.C.A., $aS1950$; Gardiner, Hunter & Co, 3 Stone Buildings, Lincoln's Inn, London WC2.

Whitbread, Roger Charles, A.C.A., $a1958$; Bell & Co, Lime Street, High Street, Bedford.

Wilkinson, David Thomas, LL.B., A.C.A., $a1965$; Beever & Struthers, 28 Booth Street, Manchester 2.

Wood, John Anthony, A.C.A., $aS1956$; *Cooper Brothers & Co and Coopers & Lybrand, P.O. Box 998, Permanent House, Cecil Avenue, Ndola, Zambia.

Wulcko, Charles Bernard, F.C.A., $aS1949$; *Cooper Brothers & Co, Abacus House, Gutter Lane, Cheapside, London EC2.

Re-admission to membership

Subject to payment of the amount required by the Council, one former member of the Institute was re-admitted to membership under clause 23 of the supplemental Royal Charter.

Resignations

The Council accepted the resignations from membership of the Institute of:

Baird, Thomas Herbert Mertens, F.C.A., $a1934$; 'Cornerways', 33 Suffolk Street, Walton-on-Naze, Essex.

Bicker, Hedley John, F.C.A., $aS1920$; 'Dhariwal', Tower Lane, Colehill, Wimborne.

Coulter, Charles Michael, B.COM., A.C.A., $a1957$; 66 Broadway Avenue, Apt. 1718, Toronto 12, Canada.

Ford, Charles Eric, F.C.A., $a1928$; 63 Swain's Lane, Highgate, London N6.

Hall, Leslie, F.C.A., $a1929$; 'Shirley', 13 Hardwick Road, Folkestone, Kent.

Hawkins, Edward Ronald, B.COM., F.C.A., $a1951$; 52 Broad Walk, Winchmore Hill, London N21.

Hewetson, Christopher Oliver Heywood, F.C.A., $a1940$; c/o Midland Bank Ltd, 24 Market Street, Frome, Somerset.

Hodgkinson, Brian James, A.C.A., $a1961$; 225 Rayners Lane, Harrow, Middx.

Hopkins, John Goddard, F.C.A., $a1930$; 2 Minster Street, Wilton, near Salisbury, Wilts.

Jamieson, John Wright, F.C.A., $a1927$; 'Seaton', Ecton Villas, Wylam, Northumberland.

Marsterson, Hubert Lacey, F.C.A., $a1924$; Flat 1, No. 4, The Paragon, London SE3.

Paterson, Frederick Woodhouse, M.B.E., F.C.A., $a1923$; Widden Close, Boldre, near Lymington, Hants.

Reed, Harry Clifford, F.C.A., $aS1938$; Assistant Treasurer, Du Pont Do Brasil S.A., Caixa Postal 8112, São Paulo, Brazil.

Sanders, Charles Kenneth, F.C.A., $a1933$; c/o Cecil Roberts Ltd, Hawleys Lane, Longford, Warrington.

Smith, Cyril Morris, F.C.A., $a1936$; Secretary, Mid-Worcestershire Hospital Management Committee, Birmingham Road, Bromsgrove, Worcs.

Smith, Frederic Cyril, F.C.A., $a1927$; c/o Wellcome Foundation Ltd, 183 Euston Road, London NW1.

Stuart, Charles Marsden, F.S.A.A., $aS1928$; c/o P.O. Box 2536, Johannesburg, South Africa.

Womack, Rex Hayden Tollemache, F.C.A., $a1936$; 'Great Beats', Kilve, Bridgwater, Somerset.

Wormald, (Miss) Annie Horsburgh, F.C.A., $a1929$; 19 Warwick Road, Walkden, Manchester.

Deaths of members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Ernest Edward Ainsley, M.C., F.C.A., Cheltenham
,, Charles Geoffrey Allott, F.C.A., London
,, Roger Thomas Andrews, A.C.A., Accra
,, George Herbert Attenborough, F.C.A., London
,, Edward Cyril Ayton, F.C.A., Norwich
,, Henry Ward Baddeley, F.C.A., Newport, Mon
,, Philip Joseph Banks, F.C.A., Birmingham
,, Horace Bloomfield Barter, M.C., F.S.A.A., Richmond, Surrey
,, Wilfred Maitland Baxter, F.C.A., Plymouth
,, Robert Edward Bell, F.C.A., Wilmslow
,, Vincent Charles Bianchi, F.C.A., London
,, Alfred Blair, F.C.A., Petts Wood
,, Sydney Hubert Bond, F.C.A., Preston
,, Alan Fergus Brown, F.C.A., Dublin
,, John William Brown, F.C.A., Bournemouth
,, Howard Button, C.B.E., F.C.A., Sutton Coldfield
,, Gilbert Catton, F.S.A.A., Colne, Lancs
,, Charles Eric Miller Cheetham, F.C.A., Church, Lancs
,, Sidney Herbert Colman, F.C.A. Groombridge

Mr Ivor Dennis Corbett, F.C.A., Birmingham
,, Robert Hood Coulthard, F.S.A.A., South Shields
,, Walter Edward Cramp, F.C.A., Harrow
,, John Redfern Crookes, F.C.A., Sheffield
,, Edward Gowland Davis, F.C.A., London
,, Charles Geoffrey Dixon Dennis, F.C.A., Leicester
,, Norman Turner Downs, F.C.A., Sidmouth
,, Harry John Eeles, F.C.A., London
,, David Evans, F.C.A., Birkenhead
,, Kenneth Herbert Fisher, B.A., F.C.A., London
,, Eric Spalding Fleetwood, F.C.A., Cowes
,, Horace George Fox, F.C.A., Worthing
,, Clarence Kenneth Frost, F.C.A., Leeds
,, Ernest Greenwood, F.S.A.A., Bradford
,, Ernest Hammond Greaves, F.C.A., Guernsey
,, Alexander Hannah, F.C.A., Ormskirk
,, Sidney Charles Harris, B.COM., F.C.A., Penarth
,, Stanley Rathbone Hayes, F.C.A., Ludlow
,, Frederic Hill, F.C.A., Crosby
,, John Gilbert Huggins, F.C.A., Wallington
,, Archer Richard Hunter, M.A., F.C.A., Wokingham
,, George Cuthbert Jarvis, F.C.A., London
,, Geoffrey Arthur Johnson, F.C.A., Lowestoft
,, David Stuart Key, F.C.A., Worthing
,, John King King-Farlow, F.C.A., Richmond, Surrey
,, Edward Lawton, F.C.A., Huddersfield
,, John Geoffrey Lax Lovell, F.C.A., Haywards Heath
,, John Cheyne Macintosh, F.S.A.A., Johannesburg
,, Willie Oscar Mayhew, F.C.A., Fordingbridge
Mrs Vivienne Eveline Mohammed, F.C.A., Baghdad
Mr Thomas William Moorby, T.D., F.S.A.A., Cottingham
,, Wilfrid Francis Moore, F.S.A.A., London
,, William Marsden Murray, F.C.A., Hailsham
,, George Langley Myers, F.C.A., London
,, Francis Harold Arthur Oldacre, F.C.A., Durban
,, Harold Frank Olivant, F.C.A., Barcelona
,, Leonard Ruskin Sextus Pope, F.C.A., Kingston upon Thames
,, Harold Powell, M.B.E., F.S.A.A., Newport, Mon
,, Colin Prescott, F.C.A., Bolton
Mr Norman Walter Price, F.C.A., Birmingham
,, Richard Howard Theobald Ridler, F.C.A., Auckland, New Zealand
,, Wilfrid Charles Hepburne Ruddle, F.C.A., Farnham
,, Frederick Harold Sawyer, F.C.A., Southampton
,, James Archibald Scott, O.B.E., J.P., F.S.A.A., Kilmarnock
,, Satyendra Nath Sen, M.A., B.COM., F.C.A., Calcutta
,, John Holroyd Sergeant, M.C., F.C.A., London
,, Herbert Sutherst, F.C.A., Bury
,, Arthur Taylor, F.C.A., Manchester
Mr Wilfred Charles Staward Waight, M.SC.(ECON.), B.COM., F.C.A., Bromley, Kent
,, William Gerard Wearden, F.C.A., Preston
,, Eric Paul Wearing, F.C.A., London
,, Harry Webber, F.C.A., London
,, Hubert Sydney Wheatcroft, F.C.A., Seaford
,, Walter Douglas Whitemore, F.C.A., Nottingham
,, Kenneth Norman Williams, F.C.A., Penmaenmawr
,, Anthony Kenneth Jack Wimbourne, A.C.A., London

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute at a hearing held on January 5th, 1966

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Michael Lindeck an associate of The Institute of Chartered Accountants in England and Wales has been guilty of an act or default discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the Supplemental Royal Charter in that as chief accountant to a limited company he made or procured to be made in the books of that company entries in relation to the purchase of supplies of carbon paper which did not properly reflect or disclose that transaction so as to render himself liable to exclusion or suspension from membership of the Institute. The committee found that the formal complaint against Mr John Michael Lindeck, A.C.A., had been proved and the committee ordered that Mr John Michael Lindeck, who became an F.C.A. on January 1st, 1966, of 81 Langley Way, Watford, Hertfordshire, be excluded from membership of the Institute.

FINDING AND DECISION OF THE APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute at a hearing held on January 26th, 1966

The Appeal Committee heard an appeal against the Finding and Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that Peter Ralph Simnett a fellow of The Institute of Chartered Accountants in England and Wales: (*a*) was at the adjourned Quarter Sessions for the County of London on November 17th, 1964, convicted on a certain Indictment against him – for that he between the 5th and 21st days of October 1964, received one cigarette case, the property of a certain person, knowing the same to have been stolen and (2) between the 16th and 21st days of October 1964, received one briefcase and other articles, the property of another person, knowing the same to have been stolen, and was ordered to be imprisoned nine calendar months on each charge (concurrent sentences), and (*b*) has failed to pay the subscription payable by him under clause 11 of the Supplemental Royal Charter and bye-law 41 in respect of the year 1965 for four months after the same has become due so as to render himself liable to exclusion or suspension from membership of the Institute. The committee affirmed the Finding of the Disciplinary Committee that the formal complaint had been proved under both headings and the committee affirmed the Decision of the Disciplinary Committee that Mr Peter Ralph Simnett, F.C.A., of 39 Thurloe Court, Fulham Road Chelsea, London SW3, be excluded from membership of the Institute.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS DERBYSHIRE & Co, Chartered Accountants, of Hanover House, 73–78 High Holborn, London WC1, announce that as from January 1st, 1966, Mr JOHN WHITBOURNE COWPER, F.C.A., who has been a member of their staff for some years has been admitted as a partner in the London firm, and that Mr CECIL MICHAEL SHORE, F.C.A., retired from the partnership on December 31st, 1965, due to ill health. The name of the firm will remain unaltered.

The formation of a firm by the name of ANNAN, IMPEY, MORRISH & PARTNERS, National Chambers, 4 Horsefair Street, Leicester, is announced. The partners in the firm are Messrs R. C. BISHOP, F.C.A., of THOMAS MAY & Co, H. F. DIXON, F.C.A., of ALFRED G. DEACON & Co, J. F. DOLEMAN, A.C.A., of F. W. CLARKE & Co, W. J. MUSSON, D.F.M., F.C.A., of FREEMAN, BREAM & Co, R. G. WILKES, T.D., F.C.A., of BOLTON, BULLIVANT & Co, and Messrs C. I. BOSTOCK, M.A., F.C.A., J. W. HILLS, M.A., A.C.A., C. H. BROWN, B.A., A.C.A., and K. SPOEL, B.COM., A.C.A.(S.A.), of ANNAN, IMPEY, MORRISH & Co.

Appointments

Mr Basil Clough, F.C.A., has been appointed company secretary and financial controller of The Yorkshire Conservative Newspaper Co Ltd.

Mr L. W. Goacher, A.C.W.A., has been appointed East Sussex and South West Kent area accountant of the South Eastern Electricity Board, to succeed Mr F. W. Barnes, A.I.M.T.A., A.A.C.C.A., who has become Kent area accountant.

Mr Horace Hampton, F.A.C.C.A., has been appointed manager of the data and methods department of Telephone Rentals Ltd.

Mr D. E. Henson, F.C.A., formerly chief accountant of Ampex Electronics Ltd, has been appointed group chief accountant of Cavenham Foods Ltd.

Mr Roy Hewitt, F.C.A., has been appointed chief accountant of Telephone Rentals Ltd.

Lord Polwarth, T.D., D.L., LL.D., M.A., C.A., deputy governor of the Bank of Scotland, will become governor on the retirement of Lord Bilsland.

Mr J. A. Potter, F.C.A., has been appointed a director of Braham, Patterson & Benham Ltd.

Mr P. S. Rowlands, F.C.A., group chief accountant of Babcock & Wilcox Ltd, has been appointed chief executive, finance division, of The British Oxygen Co Ltd as from February 1st.

IN PARLIAMENT

Companies Bill

Mr BRUCE-GARDYNE asked the President of the Board of Trade why he has decided not to include provision for additional disclosure of directors' share dealings in the forthcoming Company Law Reform Bill.

Mr JAY: There is time this Session only for a Companies Bill of limited scope. It will deal mainly with disclosure in company accounts. I regard this as the essential first step in the amendment of the existing Companies Act.

Hansard, January 27th, 1966. Written answers, col. 112.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

List of Members

Membership of The Institute of Chartered Accountants in Ireland at August 31st, 1965, numbered 1,861, according to the Institute's *List of Members* now published. An analysis of the membership is given below:

	Members in Ireland	*Members not in Ireland*
Fellows in practice	305	19
Fellows not in practice ..	28	16
Associates in practice	193	16
Associates not in practice ..	1,003	281
Total membership	1,861	

The new book contains the usual alphabetical and topographical lists of members, together with the names of members of the Council of the Institute.

MEETINGS IN LIVERPOOL

Computers and Accounting

At the suggestion of the Liverpool Society of Chartered Accountants, the University of Liverpool Business School is arranging a one-week course on 'Computers and accounting' to be held in the University from Monday, March 28th, to lunch-time on Friday, April 1st. Initially, participation will be restricted to members of the Liverpool Society.

Among the topics to be considered will be programming, basic applications, the organization of computer operation, the control of computers, staffing and administration, and auditing computer records. The speakers will include: Professor Andrew Young, Professor of Numeric Analysis, University of Liverpool; Mr A. J. Platt, F.C.A., Head of Computer Department, Pilkington Bros Ltd; Mr T. E. Gambling, B.COM., F.C.A., University of Birmingham; Mr D. W. Hooper, M.A., F.C.A., Technical Officer, The Institute of Chartered Accountants in England and Wales; and Mr F. Mitchell, F.C.A., of Cooper Brothers & Co.

The course fee will be about 40 guineas, and further details can be obtained from the course director, Mr A. M. Bourn, B.SC.(ECON.), A.C.A., Department of Economics, University of Liverpool, Social Studies Building, Bedford Street South, Liverpool 7.

Management Accounting Seminar

The sixth management accounting seminar to be organized by the University of Liverpool Business School will commence at 5.45 p.m. on Monday, February 28th, and will continue weekly (except on Easter Monday) until Monday, May 9th. Each meeting lasts from 5.45 p.m. until about 10 p.m., with an interval for drinks and dinner from 7.15 p.m. until 8.15 p.m. The course will be held in the Shaftesbury Hotel, Mount Pleasant, Liverpool.

The course fee is 50 guineas and further details can be obtained from the course director, Mr. A. M. Bourn, B.SC.(ECON.), A.C.A., Department of Economics, University of Liverpool, Social Studies Building, Bedford Street South, Liverpool 7.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The next meeting of the London and District Society of Chartered Accountants will be held next Thursday at 5.45 p.m. at the Little Ship Club, Bell Wharf Lane, Upper Thames Street, London EC4, when Mr J. S. McGavin, group personnel officer of the Reed Paper Group, will speak on 'The building-up and maintenance of a salary structure'.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

Residential Course for Final Students

The twelfth residential revision course for final students to be arranged by the Education Committee of the Manchester Society of Chartered Accountants is to be held at Lyme Hall, near Disley, from March 28th to April 1st.

This course, for which priority will be given to candidates at the May 1966 examinations, is for the first time being organized with separate programmes for Part I and Part II candidates. Further innovations include three periods for Part I students in which written tests will be answered. It is also intended to use the evenings for talks on topics relating to the General Paper.

The fee for the course is £11 11s and students wishing to attend should write to the assistant secretary, 46 Fountain Street, Manchester 2, as soon as possible for further details and an application form. The closing date for applications is Wednesday, March 9th.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

The highlight of next week's programme of events of The Chartered Accountant Students' Society of London is the President's Meeting in Guildhall at 5 p.m. on Wednesday, at which the speaker will be Mr George Woodcock, C.B.E., General Secretary of the T.U.C. An address with the interesting and enigmatic title of 'Whither?' from such an outstanding personality cannot fail to attract a large attendance. Tea will be served in the Ambulatory of Guildhall from 4 p.m.

Other meetings during the week are as follows:

MONDAY

Whole-day course, with the emphasis on limited companies, at the Little Ship Club, Bell Wharf Lane, Upper Thames Street, EC5. The lectures will be as follows:

10–11.15 a.m.
'An introduction to computers', by Mr C. V. M. Latham, M.A., A.C.A., technical consultant, Systems Analysis Department, I.P.C. (Group Management) Ltd.

11.45–1 p.m.
'Company taxation', by Mr E. E. Ray, B.COM., F.C.A.

2.30–3.30 p.m.
'Capital planning', by Mr J. H. Bird, A.C.A., taxation officer, Powell Duffryn Group.

4–5 p.m.
'Published accounts', by Mr G. D. Pearsons, O.B.E., A.C.I.S., Vice-Chairman (Finance), Fisons Ltd.

Special general meeting of members at the Little Ship Club at 5.30 p.m.

Two mock meetings of a company in insolvency at 5.45 p.m., immediately after the special general meeting, at the Little Ship Club.

This demonstration ending at 7 p.m. will follow the usual style of the Society's popular mock company meetings. Those attending will receive the documents which would be available if they were attending a normal meeting for this purpose. There will be full 'audience participation'. These mock meetings – like the other demonstrations – are open to any member who may wish to attend.

If the threatened rail strike takes place, the whole-day course, special general meeting and mock meetings will be postponed.

Chess club meeting in the Society's Common Room, 43 London Wall, at 6 p.m.

WEDNESDAY

Debate at 6 p.m. in the Students' Society Common Room, 43 London Wall, when the motion will be 'This house considers that the U.S.A. should withdraw from Vietnam'.

Chess match against Etessa at Fleet House, Farringdon Street, EC4.

Soccer match against Reading University, at the University.

Southend-on-Sea Branch. Two lectures by Mr B. Rose, B.E.M., F.C.A., at 10.30 a.m. on 'Accounts: amalgamations and reconstructions'; and at 2.15 p.m. on 'Consolidated accounts'; at the Crooked Billett, 51 High Street, Leigh-on-Sea.

THURSDAY

Ilford Branch. Mr M. J. Brookman will speak on 'Book-keeping machines and mechanized accounts', at the Valentine Hotel, Gants Hill, at 6.45 p.m. Sandwiches and rolls available from 6.15 p.m.

Reading Branch. Lecture on 'Reconstructions and amalgamations', by Mr C. J. Russell, A.C.A., at the Great Western Hotel, at 7.15 p.m.

THE ACCOUNTANT

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The Recognized Weekly Journal for the Accountancy Profession throughout the World

ON OTHER PAGES

Inland Revenue Report

THE Inland Revenue thrives on inflation so it is not surprising that its latest annual report[1], for the year ended March 31st, 1965, bears traces of it throughout. To begin with, the number of Commissioners went up from seven to eight during the year, although the report indicates no reason for this. It cannot have been the new Finance Act, 1965, for the progenitors of this did not come into power until after the increase. That inflation is rife is apparent from the buoyancy of the revenue during the year, details of the collection of which have already been announced in the Civil Appropriation Accounts, Classes I – V, published last month[2].

In contrast to the number of Commissioners, the total staff has actually fallen by some 314 to 57,708, notwithstanding 108 additional personnel of the Valuation Office, and 109 officers taken over from the War Damage Commission. The aggregate cost of collection has accordingly fallen, too. The latest percentages are as follows: income and profits taxes, 1·42 per cent; death duties, 0·85 per cent, and stamp duties 1·79 per cent. The death duties figure is up from 0·79 per cent last year.

Lying behind the reduction in staff no doubt lies the increasing use of automation. One may have reservations about the assertion in the report that 'The Board have always endeavoured to take advantage of developments in mechanical appliances for handling office work'. This is not the impression that a casual visit to a tax office ordinarily gives. Nevertheless the report contains some impressive testimony about the growth of automation. Statistical material is handled by two computers at Canon's Park, and three major projects were in hand on March 31st last.

The first deals with P.A.Y.E. in Scotland. The new town of East Kilbride will house a computer installation, including an I·C·T 1904 system. This will do bulk jobs like the issue of return forms, deduction cards, coding notices and notices of assessment. After trials it is intended to bring the new system into operation early in 1968, with full operation two years later, when over two thousand people will be working at the centre. The staff saving is expected to amount to 500.

As far as P.A.Y.E. in the remainder of the United Kingdom is concerned, the intention is to concentrate work in seven or eight large regional centres. The promise is made that the automated system will not increase the cost to employers, although one can

[1] One Hundred and Eighth Report. Cmnd 2876. H.M.S.O. 17s net.
[2] See *The Accountant*, January 29th issue.

imagine the computer issuing a good many unnecessary communications far more puzzling to the receiver than to the sender.

The second of the three major projects is concerned with the collection of tax. Installations at Bootle and again at East Kilbride will carry out routine clerical and accounting work on payment by employers of P.A.Y.E. and graduated contributions. At both places will be Gamma 10 computers. By next April Bootle will have taken over this work from forty-seven local collection offices in the London area, dispersing the work of about one hundred and seventy-five people to the provinces. At the same time East Kilbride will take over from nineteen Scottish collection offices. Altogether more than one hundred and fifty staff on collection work will be saved.

The third project is at Worthing, home of the collection headquarters, where a payroll-statistics installation, including an English Electric Leo III computer, commenced operation last year. It will take on in stages the calculation of all salaries and pensions payable throughout the Department, and take over the Canon's Park work and the work of eleven machine centres, saving ultimately two hundred staff.

There was a sharp fall in 1964–65 in the number of convictions secured for false accounts and returns of income – fifteen as against the exceptionally high figure of thirty-four in the previous year. In neither year did the Revenue fail to secure a conviction at the trial.

One of the appendices to the report contains a survey of personal incomes for 1963–64 which makes interesting reading. One table classifies income by size before tax. Some four thousand nine hundred persons had incomes exceeding £20,000 before tax, although it is highly unlikely that anyone had an income over £20,000 after tax. There were 15,900 people with incomes exceeding £6,000 after tax, although no doubt many of these disposed of capital assets with which they could supplement their spendable income by untaxed capital gains. In the bracket between £10,000 and £20,000 of income before tax there were 22,000 people, out of a total of nearly twenty-one million people having incomes of £275 and above. Over half of the total had incomes under £800 before tax. After tax, over half of the total had incomes of less than £750. Over four and a half million people had incomes between £1,000 and £2,000 after paying tax. Slightly over half a million people did better than that.

The use of automation has enabled an expansion of the surtax statistics, for which new tables have been introduced. There were some 305,000 members of this exclusive club in 1963–64, the earned income and the investment income running almost neck and neck. A new table gives an analysis of the slices of assessed income charged at individual rates. The top slice is reached above a total income of £15,000 and is 10*s* in the £. The number of people paying it for 1962–63 was 6,545 and they increased to 6,833 for 1963–64. Of course, there may be more for those years; there is a good deal of time lag in the making of surtax assessments. At the other end of the scale some 296,000 paid surtax on the lowest slice for 1962–63, with an increase to 305,000 for 1963–64. These two figures also show, of course, the total number of surtax payers for those years, as so far discovered. In 1960–61, the last year before the extension of earned income relief to surtax, there were 462,000 surtax payers. The number in 1963–64 is still lower than the number as long ago as 1954–55, despite the creeping inflation which has gone on since then. Any close observer of the scene would agree that for self-employed people surtax is a very great deterrent to increased effort. The granting of earned income relief in 1961–62 was a wise and fair move. Now that the £ sterling has had another four years of descent down the inflationary slope it is high time that the earned income relief was increased in proportion, like the National Insurance contributions. The percentage cost of collection at the lower end of the scale must be disproportionately high.

Seven estates exceeding £1 million fell victim to estate duty in the year ended March 31st, 1965, and three of them were over £2 million. One of the over-£1 million estates was in Scotland; Northern Ireland collects its own estate duty. The levying of duty on *inter vivos* gifts made in the five years before death produced nearly seven thousand cases, of which there were 4,600 cases of gifts within two years before the death. The amounts of the gifts came in the aggregate to £34½ million, a truly remarkable figure. One can only speculate on the gifts which were made outside the statutory period. Given an overall rate of 80 per cent on the largest estates, it is hardly surprising that rich men become extremely generous in their advancing years. Of course, the new capital gains tax will tax that element of future gifts which represents an increase in value since the end of 1964–65.

Electronic computing has produced some interesting statistics of estimated wealth of individuals in 1960, 1963 and 1964. Total net wealth in these years increased from some £51,618 million (representing some eighteen million people) to £68,455 million (representing some eighteen and a half million people). As might be expected rather more males than females are represented among the estate owners, although the difference is not great. Estates exceeding £200,000 were enjoyed by 7,000 in 1960, and by 12,000 people in 1964. Of course, one is comparing 1964 £*s* with 1960 £*s*, which is hardly fair.

Bagehot in Perspective

ECONOMICS, said JOHN MAYNARD KEYNES, is an easy subject at which very few excel, the reason being that the master-economist must possess a rare combination of gifts – as mathematician, historian, statesman and philosopher – and reach a high standard in several directions. It might also be said that many of the leading economists achieved ultimate eminence by devious routes. ADAM SMITH was at one time tutor to the young DUKE OF BUCCLEUCH; RICARDO was a stock-broker, and MALTHUS for a short period a curate. WALTER BAGEHOT was even more original in his approach. He finally arrived by way of banking, journalism – and matrimony.

Born in 1826, BAGEHOT graduated at University College, London, in 1846 and went on to win further honours in 1848 in moral and intellectual philosophy. He then read for the Bar to which he was called in 1852 but in the same year returned to his native Somerset, abandoning a promising legal career to take a post in the family bank of which his father was partner and managing director. Despite an early antipathy to the discipline of accountancy ('I have devoted my time', he wrote to a friend, 'for the last four months nearly exclusively to the art of book-keeping by double entry, the theory of which is agreeable but the practice perhaps as horrible as anything ever was'), he never regretted this decision as it gave him leisure not only to learn his new calling but to indulge in his favourite sport of hunting and, also, to begin his literary career. So rapid was his progress in the last of these that, in 1855, he became joint editor of the *National Review*. Through this connection he met JAMES WILSON, founder and editor of *The Economist*.

This was to be the turning point of BAGEHOT's life. In 1858, he married WILSON's eldest daughter, ELIZA, and in the following year was appointed a director of *The Economist*. WILSON died in 1860 and in 1861 BAGEHOT became editor. In the same year, he moved to London to take over the management of the London branch of the family bank. He continued to hold these two appointments until his death in 1877. His wife, who like many Victorian ladies was constantly preoccupied with her own state of health, outlived him by forty-four years and died in 1921.

The first two volumes of a definitive edition of the collected works of BAGEHOT, edited by Mr NORMAN ST JOHN-STEVAS, have just been published.[1] These contain his literary essays and will be followed by one volume of historical essays, two each of his political and economic writings and, finally, by a volume of letters etc. When complete, the project should prove a lasting memorial to one of the most detached and most delightful writers of the long Victorian age.

In a short biography which, with a literary appreciation by Sir WILLIAM HALEY, introduces the essays, Mr ST JOHN-STEVAS describes BAGEHOT as 'an amateur of genius'. This phrase in isolation is capable of misinterpretation if the word 'amateur' is taken to mean anything other than one with a dedicated enthusiasm for whatever interests him. It is a fact that BAGEHOT always had a number of irons in the fire but he was no dilettante. He brought to each of his diverse activities a skill and concentration wholly professional. His perceptive intelligence and keenly analytical mind made him search for the essential truth in every argument or situation. The ability to express his findings clearly and with good-natured humour gave his writings a quality which often eludes those of intellectuals – readability. This trait is apparent in the literary essays which make up the two volumes now available. It will no doubt be seen, also, running like a luminous thread through the more complex political and economic expositions in the later volumes, for BAGEHOT, as a man and a writer, was all of a piece. Indeed, his character can be identified with the likes and dislikes expressed in his literary criticism. He much admired the sterling honesty of Sir WALTER SCOTT and was at ease when interpreting such giants as SHAKESPEARE, MILTON and WORDSWORTH. On the other hand, he suspected the sentimentality of DICKENS and was puzzled by the darting intellect of SHELLEY whom he never completely understood.

Although he had a leaning towards the contemplative life, BAGEHOT believed that the countries of the mind could best be cultivated by keeping in contact with the world of affairs. In his own case, he demonstrated this by being, as well as literary critic, both banker and editor. In men of lesser ability, this combination of activities might have resulted in disaster but BAGEHOT thrived on it. To what extent cannot be fully appreciated until Mr ST JOHN-STEVAS's scholarly researches have been completed. Then only and for the first time can the sum of BAGEHOT's achievements be assessed.

[1] *The Collected Works of Walter Bagehot*, Volumes I & II. Available only direct from *The Economist*, 25 St James's Street, London SW1. Price £5 for the two volumes, post free.

CAPITAL GAINS TAX

Transactions not at Arm's Length – II

BEFORE considering paragraph 15 of Schedule 7, it is useful to examine the general background to it. The categories of 'disposals' for capital gains tax purposes are much extended by section 22 (3) of the Finance Act, 1965. It directs that in general there is a disposal of assets by their owner where any capital sum is derived from assets notwithstanding that no asset is acquired by the person paying the capital sum. Of the instances given by the subsection is the case of capital sums being received in return for forfeiture or surrender of rights, or for refraining from exercising rights (a nice distinction). These provisions are somewhat nugatory where no capital sum is received, as for instance in the case of an exchange of something other than cash, or where the parties are not at arm's length.

This brings us to the simplest sub-paragraph of paragraph 15, sub-paragraph (4) which says:

> 'If an asset is subject to any description of right or restriction the extinction or abrogation, in whole or in part, of the right or restriction by the person entitled to enforce it shall be a disposal by him of the right or restriction.'

It is to be observed that a contract not to enforce the right or restriction is not in terms covered, although the Court could well hold that 'abrogation' was wide enough to include it. Clearly, no capital sum needs to pass to make it a disposal. The above is only one of the examples to which paragraph 15 (1) applies in general. It says that so far as (on the assumption of arm's length) the disponor *could* have obtained consideration, or additional consideration, for the 'disposal', the transaction shall be treated as not being at arm's length. To arrive at the market value one must add, to the actual consideration (if any) the additional consideration which could have been obtained. It follows that where a donor has given property subject to restrictions in his own favour which are ignored by virtue of paragraph 17 (5), then there can be double taxation of the unfortunate donor.

A slightly more sophisticated approach appears in paragraph 15 (3) which, however, is confined to the case where the owner of an asset (including land) becomes the 'lessee' of it. If thereafter

> 'there is any adjustment of the rights and liabilities under the lease, whether or not involving the grant of a new lease, which is as a whole favourable to the lessor, that shall be a disposal by the lessee of an interest in the property'.

One has a strong suspicion that the draftsman has mistakenly transposed 'lessor' and 'lessee'. Why should the original owner go through the rigmarole of (i) conveying the property; (ii) taking a lease-back on normal commercial terms and (iii) procure an amelioration of those terms in his favour? A more likely device would be for him to grant a lease to, say, his son, on ordinary commercial terms and then consent to a modification of the terms in the son's favour. It is to be borne in mind that section 45 (1) defines 'lease' to include mere licences and also agreements for the use of property other than land, 'lessor' and 'lessee' being construed accordingly. The definition applies 'unless the context otherwise requires'; the context of paragraph 15 (3) does not appear to require the exclusion of such a wide definition. Given that paragraph 15 (3) applies, then paragraph 15 (1) operates as indicated above.

Most sophisticated of all is the device hinted at in paragraph 15 (2), namely, the manipulation of share rights in a company, in particular a family company. The sub-paragraph is best expounded in tabular form. It applies where the following conditions are satisfied:

(1) a person (A.) has 'control of a company;

(2) A. exercises his control;

(3) so that value passes out of

- (*a*) shares in the company owned by
  - (i) A.; or
  - (ii) a person connected with A.; or
- (*b*) rights over the company exercisable by
  - (i) A.; or
  - (ii) a person connected with A., and

(4) that value passes into *other* shares in or rights over the company.

These conditions being satisfied, there is a 'disposal' of the shares or rights within (3) above. The disponor is not necessarily A.; it is the person by whom the shares were owned or the rights exercisable. Given all these assumptions, then one applies paragraph 15 (1) again. This means asking the question 'Could the dis-

ponor, at arm's length, have obtained consideration or additional consideration?'. In other words, not only must one enter a 'dim world peopled by the indeterminate spirits of fictitious or unborn sales'[1], one must also enter the even dimmer world of fictitious sales of fictitious assets. The computation of the notional loss (or gain) will present severe problems. But consider the problems of the fictitious recipient of this fictitious asset, when he comes to sell part of his holding.

The 'control' mentioned in paragraph 15 (2) is to be construed ('unless the context otherwise requires') in accordance with paragraph 3 of Schedule 18, the Schedule dealing with close companies 'controlled' by less than six persons or by directors. For this purpose, there must be attributed to A. not only his own voting etc. powers but the aggregate powers of all his 'associates' and their respective nominees (paragraph 3 (3) (4)). However, the sub-paragraph cannot bite unless A. 'exercises' this control. How can one 'exercise' powers which by definition are exercisable only by someone else? There seems to have been some lack of liaison between the draftsman of Schedule 7 and the draftsman of Schedule 18. Evidence of this also lies in the two different concepts of 'associates' and 'connected persons'.

Assume now that A. really does have 'control' of a company as understood by the man in the street. Suppose now that when an alteration of share rights is proposed he stands idly by. That cannot be an exercise of control. Assume now that no person alone controls the company, even in the extended sense laid down by paragraph 3 of Schedule 18. If the necessary majority exercise their joint control in the manner contemplated by paragraph 15 (2) can that be regarded as an exercise by a 'person', on the footing that 'person' in an Act means 'persons' unless the contrary intention appears (Interpretation Act, 1889, section 1 (1) (*b*)). It would seem that there is such a contrary intention. Plainly 'person' in paragraph 3 must mean one person, because paragraph 3 is dealing with the question whether as few as five persons control the company. It seems, therefore, that if the necessary special resolution is passed without the assistance of the person having control, there is no exercise of control. Of course, the persons passing the resolution must not be his associates. All this is part of the 'simplicity' which was promised by the Government when they introduced the Finance Act, 1965.

Where an individual makes a gift of an asset whose market value does not exceed £100, then it is assumed that there is no chargeable gain (section 27 (2)) and no loss (section 27 (10)). There is a similar exemption from Case VII (short-term gain) tax in section 17 (6). However, it is useless to try to avoid tax by making a large number of gifts of a value of £100 or less. The two exemptions together do not apply to gifts by the same individual in the same tax year which exceed £100 in the aggregate.

Suppose that a donor gives away everything he has. The fact that section 22 (4) directs that he is to be treated as receiving the market value will not put anything into his pocket. Therefore he may well have difficulty in paying the capital gains tax on his notional gain. The interesting point, therefore, arises as to whether the avoidance of the capital gains tax in this manner makes the disposal of the property in fraud of creditors, to wit the Inland Revenue. However, paragraph 19 of Schedule 7 is directed to saving the Inland Revenue from difficulties of this kind. It speaks of gifts but defines these to include

> 'any transaction otherwise than by way of bargain made at arm's length so far as money or money's worth passes under the transaction without full consideration in money or money's worth'.

The words 'donor' and 'donee' have a correspondingly extended meaning, and also extend to deemed disposals on death, when the personal representatives are to be treated as the donor for the purpose of paragraph 19.

Paragraph 19 (1), headed 'Gifts: recovery of tax from the donee', applies where the following requirements are satisfied:

(1) a chargeable gain accrues to a person (D.) in any year of assessment;

(2) it accrues on the disposal of an asset by way of gift;

(3) capital gains tax is assessed on D. for that year;

(4) any part of the tax at (3) is not paid within twelve months after the date it became payable;

(5) not more than a further twelve months have elapsed.

It will be observed that the unpaid capital gains tax need have no connection with the tax on the gift.

If all five conditions are satisfied, the Inland Revenue may make an assessment on the 'donee' (in the name of D. or his personal representatives). The assessment is subject to two limitations. The amount assessed must not exceed the chargeable gain accruing to D. from the gift. Also it must not exceed the grossed-up equivalent of the unpaid tax (whether on the gift or otherwise). The grossing-up must be at the marginal rate, i.e., the tax is computed on the chargeable gain at the amount which would not have been chargeable but for that gain. The donee has a right of recovery from D. or his personal representatives.

(*Concluded.*)

[1] *In re Holt*, 32 A.T.C 402, per Danckwerts, J., at page 403.

Current Affairs

A Plea for Reason

THE memorandum which the Chancellor of the Exchequer has just received from the Council of The Association of Certified and Corporate Accountants is a masterly document which combines studied moderation with a devastating attack on the tax system as it now exists following the Finance Act, 1965. Recalling its plea for simplification back in 1962, the Association says it is difficult to avoid the conclusion that the need for simplification is invariably subordinated to any other consideration which may for the time being assume a temporary importance. Like Lord Radcliffe it complains of the system of extra-statutory concessions, many of them unpublished, so that many taxpayers are in the dark about their liability.

Of the specific recommendations of the Association, extracts from which we reproduce elsewhere in this issue, space precludes detailed comment here. The first one, which suggests that reasonable preference dividends ought to be just as deductible for corporation tax purposes as debenture interest, is reflected in the growing realization of industry that preference shares must be replaced by loan capital. What is the point of passing legislation which produces this result?

As to the niggardly relief from Schedule F tax on dividends paid out of pre-1966 profits, the memorandum makes the laconic, and surely incontrovertible comment that profit which has already borne income tax should not bear it again. The curious conception of taxing a company on its capital gains, and then taxing the shareholder himself on what is essentially the same gain, deservedly receives the Association's dignified rebuke. The memorandum includes a prayer that it be made clear that governmental pleas for incentive, endeavour and technological advance are more than mere lip service to noble conceptions. In particular the Association sees little logic in the shortfall provisions except in the case of investment income.

In the welter of change brought about by the Finance Act, 1965, when the Revenue are settling so many old scores, it is remarkable that the unfortunate Schedule E taxpayer is still left in the cold in relation to expenses. Indeed he is made even worse off if his job involves entertainment. The Association points out that it is now ten years since the Royal Commission recommended a change in the taxpayer's favour.

Trading with the Ancestral Land

THE Court of Appeal has dismissed the taxpayer's appeal against Case I, Schedule D assessments on his profit from the development and sale of land which he inherited from his father (reports *The Times* of February 11th). The appellant had been similarly unsuccessful in the High Court (*Pilkington v. Randall*).

The father left one hundred acres in 1929 on trust for his wife for life with remainder to the taxpayer and his sister. By two purchases in 1954 and 1955 the taxpayer bought out his sister, as she wished to realize her interest in the remaining land which by then was reduced to forty-five acres. He developed the land, putting in roads and drains, and sold at an aggregate profit over some years of £55,000. The Commissioners found as a fact that he began trading when he bought out his sister.

The Court declined to hold that the Commissioners' conclusion was so unreasonable as to require the Court to interfere. Lord Justice Danckwerts concurred with reluctance, citing the observations of Rowlatt, J., in *Rand v. Alberni Land Co* (7 T.C. 629 at pages 638–639) to the effect that a landowner who developed his land was not trading. However, the Court refused leave to appeal to the House of Lords, the question being really one of fact.

No Schedule E Relief for L.P. Records

IT is now established, on no less an authority than the Court of Appeal, that when a managing director buys a record player and some records of serious music in order to stimulate him to work, he does not expend the money 'wholly, necessarily and exclusively in the performance of his duties' (*Newlin v. Woods, The Times*, February 10th).

This was only one of the items about which Mr Newlin disputed the decisions of the General Commissioners and the High Court, but he was equally unsuccessful in all of them. Indeed, the Court of Appeal seems to think that the General Commissioners treated him rather well. The assessments were on Mr Newlin's remuneration from two companies, one carrying on the manufacture of industrial paint spraying equipment. He lived in a small cottage at Crowborough in Sussex and did a good deal of his work there, but was often in Birmingham from Monday to Friday where

the business was, and he travelled to other places in the provinces. In view of the travel between home and work, the inspector allowed only a quarter of the hotel and travelling expenses but the Commissioners increased it to half. They also allowed him £126 for the business use of the cottage.

A trip to South America on the advice of Mr Newlin's doctor in view of Mr Newlin's exhaustion from work was also claimed but the Commissioners disallowed all the expense. On all these decisions of the Commissioners the Court held that it was a question of fact on which it could not interfere.

First Profits of 1965

UP to the end of 1965 the Board of Trade's Statistics Division had received accounts from 300 public companies whose accounting year ended between April and October 1965. Together these companies comprise one-sixth of all quoted companies engaged mainly in manufacturing and distribution in the U.K., although their aggregated income and assets represent little more than one-tenth of the total figures of all such quoted companies.

The analysis of these 300 reports in the current issue of the *Board of Trade Journal* (February 11th) revealed that there had been some levelling out in the rapid growth of profits which had been a feature of the business scene since April 1965. Thus, profits of companies reporting in the third quarter of 1965 were 14 per cent higher on the previous year, compared with increases of 17 and 16 per cent in accounts received in the two previous quarters. The fourth quarter companies showed a continuation of this trend, total profits being only 9 per cent higher than they were a year ago. A later and supplementary sample inquiry made by the Central Statistical Office suggests that the increase of profits was halted during 1965.

The experience of the twenty-two various industrial groups, into which the accounts are classified by the Board of Trade, revealed considerable divergences. Fourteen of the groups showed higher profits for the year, five others showed no change, while the three remaining groups – shipbuilding, construction and food – were significantly lower. Of the groups showing gains, textiles recorded the largest improvement of 45 per cent, while rises of between 10 and 20 per cent were enjoyed by the tobacco, chemical, timber and metal manufacturing groups as well as retail distribution and the paper industries.

While it is still too early to know the impact of the new corporation tax on corporate profits, tax provisions made by these companies take a smaller proportion of gross profits than in the previous year, i.e. 26½ per cent against 34½ per cent. Not surprisingly, retained profits are correspondingly higher – 29½ per cent compared with 22 per cent a year earlier. Depreciation provisions plus reserves rose from £160 million to £208 million, representing 51 per cent of gross income in 1965, a higher proportion than in any recent year.

Asset Values Past and Present

ONE of the most useful accounting measures of business efficiency is the ratio of earnings to capital employed, yet its value for comparative purposes is usually invalidated by the fact that asset values are shown in published accounts on a historic rather than current cost basis. Further distortion is introduced into such comparative figures where the proportion of newly-acquired assets is tending to rise, so that the earnings : gross assets ratio tends to be biased in a downward direction.

The current issue of the *Board of Trade Journal* provides a new set of estimates of gross assets employed by quoted public companies covering the years 1949–63. In this context 'gross assets' is defined as all fixed assets inclusive of depreciation, goodwill, trade investments in unconsolidated subsidiaries, stocks and work in progress and also net current assets. The following table from the *Journal* article sets out the results of this complex statistical exercise.

	Gross income £ million	Gross assets at book values £ million	Gross assets at current values £ million	Income – asset ratio based on Book value assets per cent	Income – asset ratio based on Current value asset per cent
1949	1097	5976	12881	18·4	8·5
1950	1316	6580	13667	20·0	9·6
1951	1544	7333	15209	21·1	10·2
1952	1386	8078	17185	17·2	8·1
1953	1529	8767	18385	17·4	8·3
1954	1728	9540	18973	18·1	9·1
1955	1876	10458	20077	17·9	9·3
1956	1944	11496	21770	16·9	8·9
1957	2035	12620	23465	16·1	8·7
1958	2075	13687	24811	15·2	8·4
1959	2359	14840	25815	15·9	9·1
1960	2611	16305	26998	16·0	9·7
1960	2537	15913	26072	15·9	9·7
1961	2478	17417	27700	14·2	8·9
1962	2485	18893	29437	13·2	8·4
1963	2795	20398	31199	13·7	9·0

The main point to note is that the decline in recent years in the rate of return as shown by the figures based on book values is significantly changed when up-to-date asset values are used. According to the *Journal* there now appears to be a cyclical movement about a virtually horizontal trend. There have, in fact, it notes, been cycles both in profits and investment, the latter tending to lag behind the former

The statistical problems to be met in making such an estimate are considerable. Inevitably, the aggregate values of assets are of necessity approximate, not least because they are based on balance sheet values, and neither the age of the assets, nor their type is disclosed. Hence the most difficult stage of the exercise is the opening figure. For this value a series of assumptions regarding average age, type of asset and original prices have all to be made. Thenceafter the calculations become somewhat easier and, as the figures are brought more and more up to date, so the 'guesstimates' of

1948 tend to be removed from the series. The *Journal* article states that by 1963 no more than 40 per cent of the 1963 figure at current prices relates to assets in existence in 1948 and these will comprise, in the main, land and buildings.

Irish Institute's Examinations

THE results of the winter session examinations of The Institute of Chartered Accountants in Ireland are now announced and the names of the successful candidates appear elsewhere in this issue.

In Part V of the examination, the First Place was won by Mr P. A. Kevans, of Limerick. Mr P. J. Murphy, of Dublin, was awarded Second Place, and Third Place was awarded jointly to Mr M. J. Hoey, of Dublin, and Mr M. B. Rose, of Belfast.

The First Place in Part IV was won by Mr W. M. Holland, of Cork; Second Place by Mr E. F. McBriar, of Comber, Co. Down, and Third Place by Mr T. V. Nash, of Cork.

In Part III, Mr J. R. Lillis, of Galway, won First Place; Mr N. D. W. O'Carroll, of Dublin, was awarded Second Place and Mr T. P. M. Bourke, of Limerick, was awarded Third Place..

Mr E. P. S. MacAodha, of Dublin, won First Place in Part II; Second Place was won by Mr P. A. Flynn, of Belfast, and Third Place by Mr C. P. F. MacCarthy, of Cork.

In Part I, the First Place was won by Mr D. O. Donoghue, of Dublin, and Second Place was won jointly by Mr M. P. Moor, of Dublin, and Mr V. J. Nolan, also of Dublin.

Rail Pay Settlement

THE Government has surmounted the challenge of the railway strike, but it remains to be seen what the implications are of Mr Wilson's offer to review the whole of the railway wages structure made at the last minute in the negotiations.

The Government has at least won a negative victory. It would have been impossible to contain future demands for large wage increases untied to firm prospects of greater productivity if the Government had given way still further.

New challenges are likely in the immediate future to the Government's incomes policy. This week the electricity supply workers have met the Electricity Council, and trade union representatives will have been under strong pressure from their members to turn down the 3½ per cent wage increase offered in January. On Friday the National Union of Mineworkers will have held a delegate conference at which it is expected that plans to ban all overtime and rest day working in the coal industry will have been upheld. Senior N.U.M. officials are reported to be reluctant to allow this dispute to go as far as requiring the intervention of senior ministers. The N.U.M. has a long history of militancy.

Meanwhile, the Prices and Incomes Board has said that the railway pay settlement is within the framework of its report, provided that the inquiry into the industry promised by the Prime Minister takes due account of productivity. At the moment there seems to be little enthusiasm on the part of the trade unions which have imminent wage demands to put forward to give substance to a connection between wage increases and higher productivity.

The Planning Structure

WHATEVER one's view of the desirability of economic planning or the Government's present efforts to implement what has become known as 'indicative' planning, there is an increasing awareness among observers of the economic scene that the administrative structure needs overhauling and consolidation. It is now common gossip that the future of the National Economic Development Corporation is in the balance, not least since effective power in planning matters has been taken over by the Department of Economic Affairs.

Whether this is merely one more stage in the battle between the Treasury and its new rival does not really matter all that much. What is important is how the Government plans and how it proposes to see its plans implemented. For this reason an article in the current *Board of Trade Journal* (February 11th) by Sir Robert Shone, C.B.E., Director-General of N.E.D.C., is not without interest.

The timing of the article, which is the first of a new series on planning agencies, is for the reasons already given, somewhat unfortunate. Its significance lies in the Director-General's brief arguments stressing the need for Government plans to be co-ordinated with industrial and official labour thinking. As he puts it, 'the committees', i.e. both the big and the little Neddies, 'serve as a means of securing the consultation and involvement of industry in the making and implementation of the National Plan. It is of the first importance in achieving these objectives that industry should be effectively and continuously involved in the work of planning'.

The break-through achieved when Mr Selwyn Lloyd created Neddy was that it brought both sides of industry into open consultation with the Government on all issues of economic policy. It thereby provided some assurance that the Government's economic planning policies would take into account the views of organized industry and labour, primarily to ensure their co-operation, without which the planning was futile.

Recent pronouncements from organized industry suggest that there is now some disenchantment with certain aspects of the Government's current economic policy. For this reason alone, a high level body, preferably independent of direct political pressures, is

urgently needed to ensure industrial co-operation. A resurrected Neddy could emulate the present role of the Bank of England in providing periodic warnings on developments which Ministers must invariably judge through the rosiest of spectacles.

Parliamentary Questions

ON February 22nd, in the House of Commons, Mr Anthony Royle (Cons, Richmond, Surrey) is to ask the Chancellor of the Exchequer whether comprehensive instructions have been issued to District Inspectors of Taxes from Somerset House about the Finance Act, 1965, enabling them to give authoritative advice to taxpayers in difficult tax questions.

The Chancellor is also to be asked on February 22nd whether tax reserve certificates purchased by a company may be utilized in future in payment of corporation tax or in payment of income tax deducted from dividends to shareholders. Mr John Osborn (Cons, Sheffield, Hallam) has tabled this question.

On the same date, Mr Julian Ridsdale (Cons, Lib. Unionist, Harwich) will urge the Chancellor, in order to encourage the small saver, to introduce legislation to allow a moderate sum to be free of capital gains tax in any one year.

This is My Life

by An Industrious Accountant

I AM troubled. A morning or so ago I arrived at the office a few minutes early, thus entering side by side with the office manager among the crowd. The cost accountant gave me a cheerful good morning, following it with a mocking grin at the O.M. and a prolonged wolf-whistle. A couple of his colleagues coughed pointedly. The O.M. flushed up to his receding hair-line. A moment later the sales manager asked him politely how the harem was this morning, receiving in reply a rude injunction to shut up. At my mild inquiry as to what was going on, the O.M. answered evasively and vanished down a side-corridor. Clearly something was afoot.

Our office manager was for a long time a dyed-in-the-wool bachelor until he married the Hairpin relatively late in life, and his social life has always been distinguished by extreme decorum. My curiosity was aroused. Direct questioning obviously being useless I decided to reconnoitre, and later wandered down to the big general office at the end of which the O.M. occupies a large old-fashioned glass cubicle.

An additional, though smaller, glass box, had appeared since my last visit, I noted, offering a filter through which visitors could be given priority by his typist. Impressions registered quickly. His previous typist had left last week . . . her replacement was taking his dictation . . . he flushed again as I entered. The jigsaw pieces fell into place.

His new typist was startlingly attractive. Young and very exotic, with the unmistakable something in her dark eyes which electrifies the atmosphere, she was explanation enough for the most piercing of whistles. But as the O.M. said haughtily, it would have been unjust to have penalized her for her good looks, considering that she'd come first in the qualifying test and was thoroughly deserving of her promotion from the pool. Anyhow she was just a kid. He'd started her yesterday . . . some of these modern young chaps had rotten low minds, said the O.M. bitterly.

It seemed unnecessary to observe that all her predecessors had by contrast been plain or elderly, or that Anne Boleyn was but fifteen when she turned a harder head than the O.M.'s. If he elected to pick a beauty he must put up with the appropriate comments. Anyhow, they'd be finished in a week or so, I opined to myself.

Oddly enough, they continued. Perhaps it was due to the O.M.'s rather fond and fatherly manner towards her . . . perhaps to the way she looked at him and didn't look at other would-be escorts. . . . She put flowers on his desk, he drove her home on wet evenings. When I heard they'd worked late one night on a redraft of the office procedures manual (not all that urgent, surely?), the difference of more than twenty-five years in their ages became less reassuring.

The path of duty was debatable, but to butt in seemed a lesser fault than to ignore. I did some hard thinking after the staff went home, but on the way out a light showed under a door where no light should be, so I looked in. He was there and so was she, but they weren't working. There was a quick angry exchange. 'You so and so fool, you should have more sense at your age!'

'It's none of your damn business!'

'The department's reputation is my business and you can damn well see me first thing in the morning!'

Well, after a very broken night's sleep I came in next morning to find a letter from the O.M. on my desk. Things weren't so bad as they seemed – far from it, he wrote, but in any event his immediate resignation was at my disposal. Anyhow, it was all over and she was leaving shortly for another job.

It's not a situation covered by the textbook, though it can't be unique. The solution of the problem is not easy – it must be both fair and just – to the Hairpin, as well as to the two *enfantes terribles* themselves . . . and last but not least, to the reputation of the accounts department.

Three Topics in the History of Accounting

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'The accountant who knows nothing of the origins of the techniques he practises can surely not be said to belong to a learned profession.'

THE history of accounting is a very long one. It is generally agreed, for instance, that the earliest (middle of the fourth millenium B.C.) examples of writing discovered in Sumeria are records of temple incomes kept by priests. The technique of *writing* was developed as an aid to the keeping of accounts.

In this article I wish to discuss three topics in the history of accounting: the origins of the technique of double entry book-keeping; the origins of the modern professional accountancy bodies; and accountancy education and the universities in Britain.

DOUBLE ENTRY

'What an advantage for the merchant is the system of book-keeping by double entry; it is one of the sublimest inventions of human genius, and every good householder should introduce it into his establishment.' J. W. Goethe, *Wilhelm Meister's Apprenticeship*, Book 1, Chapter X (translation by R. Dillon Boylan).

There is no doubt whatsoever that double entry book-keeping originated in the Italian city states in the late thirteenth or early fourteenth century. *Exactly* where and when is more difficult to determine. Perhaps the answer depends on what we mean by double entry.

The simplest criterion for double entry is that for each transaction there are two entries – one called (in English) a debit, the other called a credit. Note that we are not insisting that the debits be on the left-hand side of the page and the credits on the right-hand side of the page – or even the other way round. That is, we are not insisting on what is known to historians of accounting as 'bilateral form'. On this criterion it is possible to have double entry, even if the debits and credits are written in paragraph form or the debits are in the front half of the book and the credits in the back half.

Note also that we are not insisting on the existence of both personal and impersonal accounts, i.e. accounts not only for persons but also for commodities and for abstract things like wages. A moment's thought will make it clear, however, that the recording of *all* transactions by means of double entry is impossible if we are restricted to personal accounts only. But it seems quite legitimate to regard a system restricted to personal accounts as the first step towards a fully integrated system.

This article is based on a talk given at the University of Western Australia to the Economic Society of Australia and New Zealand (Western Australian Branch).

Let us note, finally, that our simple criterion does not necessarily imply the preparation from the accounts of statements of profit or loss or of balance sheets.

If the simple criterion is acceptable then the earliest account book kept in double entry which has survived is that kept at the Fairs of Champagne by Rinieri Fini and brothers. The book, which is written in the Tuscan dialect, runs from 1296 to 1305. It is in paragraph form but does contain accounts for operating results and expenses as well as personal accounts. So far as the editor, Professor Castellani, has been able to ascertain, each entry includes a cross-reference to a corresponding debit or credit, as the case may be. If, however, we insist on bilateral form then the first accounts unquestionably in double entry are those of the *massari* or stewards of the commune of Genoa for the year 1340. Unfortunately, no records of the *massari* before 1340 have survived but it is possible that Genoese public accounts were kept in double entry from 1327 onwards.

In the early fourteenth century accounting made rapid progress. The accounts of the important Pratese merchant, Francesco di Marco Datini, were kept in double entry from about 1390 onwards. Moreover, they contain examples of provisions for tax, depreciation, and job cost accounting including the allocation of indirect manufacturing overheads. The accounting records of the Medici family – who were bankers, merchants and manufacturers – contain similar examples.

Early English accounts

The accounting methods of the Italian merchants were well ahead of those of their contemporaries in other parts of Europe. The earliest double entry records kept in England were those of branches of Italian firms. It is possible that the cash-books for the years 1305–08 of the London branch of the Gallerani company of Siena formed part of a double entry system. It is certain that the ledgers for 1436–39 of the London branch of the Borromei firm, merchant-bankers of Milan, were kept in double entry. The Gallerani and Borromei accounts were kept in Italian. The first known example of a double entry ledger written in English is that of Thomas Howell, a member of the Drapers' Company, for the years 1522–27. Howell traded mainly with Spain and the ledger was, in fact, written up in that country.

Meanwhile, double entry book-keeping had become not just a technique to be practised, but one to be written about. It is important to remember that the early books were mainly in the nature of introductory textbooks. For a long time practice was well ahead of theory – if theory is the right name for what were really simplified descriptions of practice.

The first book describing double entry to be *written* –

which is not the same thing as printed and published – was *Della mercatura et del mercante perfetto* (On Commerce and the Perfect Merchant) by Benedetto Cotrugli of Ragusa. The book existed in manuscript as early as 1458 but was not printed until 1573, probably in a revised form. Cotrugli tells us that he turned from 'the sweet activity of learning' to become a merchant 'because of necessity'. His book is by no means entirely devoted to double entry book-keeping. It does, however, include a short section 'On the method of keeping records in the manner of merchants'.

Cotrugli recommends the merchant to keep three books: a ledger (*quaderno*), a journal (*giornale*), and a memorandum (*memoriale*) or waste-book. The ledger should have an index. A merchant's property should be entered in detail in the journal and from there posted to the ledger (preferably daily). At the end of every year the entries in the ledger should be checked against those in the journal and a *bilancione* (trial balance) drawn up, profits or losses being transferred to the capital account.

Cotrugli's treatment of double entry is very slight. He states that to tell everything would be too long-winded and that it is almost impossible to explain double entry in a book, since one can hardly learn it from a book without oral instruction. The importance of his work lies only in its date – thirty-six years before the first printed book on the subject.

Paciolo

This first printed treatise was, of course, that of the Franciscan friar and mathematician, Luca Pacioli (or Paciolo). Pacioli was born some time between 1445 and 1450 in Borgo San Sepolcro, a small town in central Italy. The title of his book, published in Venice in 1494, was the now well-known *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*. The book dealt with arithmetic and algebra (including their commercial applications), book-keeping, money and exchange, and pure and applied geometry and was intended as a compendium of the existing knowledge of these subjects. The section on book-keeping was specifically stated to be a description of the system in use in Venice at the time. Since Pacioli's book set a pattern which was to be copied in many languages for the next two hundred years it is worth considering its contents in some detail.

Pacioli regarded the object of every business man as being the making of 'a lawful and satisfactory profit, so that he may remain in business' (Chapter 2). A business man should begin his accounting by making an inventory of all his worldly belongings. No distinction is made between business and private assets. Three account books are required: the Memorandum, the Journal and the Ledger, although Pacioli notes that some small businesses do not use the memorandum. The memorandum is the book in which is recorded in detail all transactions as they take place. Entries are made in it by the owner, or in his absence, by his agents, assistants or even by the women of the household – 'if they know how'. It is the book-keeper's task to transcribe these entries into debit and credit form in the journal.

There is a careful explanation of the form of a ledger and how to post from the journal to the ledger, but no explanation of the rules of double entry. Mellis's edition (1588) of Oldcastle's book of 1543 which is thought to draw heavily on Pacioli's book explains that each journal entry has:

> 'two denominations: to wit, by Debitor and Creditor, whereof the first is the name of the Debitor, receiuer or borrower; and the other of the Creditor, deliuerer, or lender. To the furtherance whereof there is a Rule, which beeing well understood, will aide you greatly: which Rule is to bee learned as well by rote, as by reason, which is thus.
>
> 'All thinges receiued, or the receiuer must owe to all thinges deliuered or the deliuerer.'

It is to be feared that most students learned by rote rather than reason, and the texts which followed gave them little help, since until the eighteenth century their usual method of exposition was to present a great mass of rules applicable to the particular cases of a large variety of transactions.

A 'profit and loss' account is described in chapter 27 of Pacioli's book. To this account are transferred losses and gains on particular lines of goods. It should be remembered that Pacioli is describing accounting for businesses which are in the nature of a series of discreet ventures, i.e. 'venture accounting'. The balance of the profit and loss account is to be transferred to the capital account.

There is no description of a balance sheet but an explanation is given of how the ledger should be balanced and how to carry forward the accounts

> 'from one ledger to another when you want to have a new ledger. This happens when the old ledger is filled up or because of the beginning of a new year. In the best known places, such as Milan, the big merchants customarily close their ledger every year'. (Chapter 32.)

Pacioli's work, and that of his successors and imitators, contains little theory. His intention, he explains, is 'to give sufficient rules to enable business men to keep all their accounts and books in an orderly fashion'.

During the sixteenth century the 'Italian method' of double entry book-keeping spread to the Netherlands, France, England, Germany and other parts of Europe. Until the nineteenth century developments were concerned mainly with refinements in technical details, with almost no changes in essentials.

Spread of 'Italian Method'

After Pacioli, the most influential book was probably *Nieuwe Instructie* (New Instruction) of the Antwerp merchant, Jan Ympyn, published in 1543. A French translation was published in the same year and an English one (without mentioning the name of the author) in 1547. The Flemish edition is described as being 'translated with great diligence from Italian into our language by Jan Ympyn Christoffels'; the French edition as being 'translated with great diligence from Italian into Flemish and from Flemish into French by the widow of Jehan Ympyn'; and the English as being 'translated with greate diligence out of the Italian toung into Dutche and out of Dutche into Frenche and now out of Frenche into Englishe'. Ympyn's book was the first published on double entry in Flanders and France and the second in England.

The first English work written was by Hugh Oldcastle and published in London in 1543. No copy of this book has survived but it was fortunately reprinted by John Mellis in 1588. The title of Oldcastle's book was:

> 'Here ensueth a profitable treatyce called the instrument or boke to learne to knowe the good order of the kepying of the famouse reconyng, called in latyn Dare et Habere, and in Englyshe Debitor and Creditor.'

It was formerly thought that Oldcastle's book was a more or less direct translation of Pacioli's. It may be,

however, that both had access to a third source. Mellis's edition was most unusual in that Oldcastle's book was specifically acknowledged: Mellis regarded himself as but a 'renuer and reviver'. He added to Oldcastle a specimen set of books.

PROFESSIONAL ACCOUNTANCY

'But the age of chivalry is gone. That of sophisters, economists, and calculators, has succeeded; and the glory of Europe is extinguished for ever.' Edmund Burke, *Reflections on the Revolution in France* (1790).

The second topic in accounting history with which I wish to deal is the origin of modern professional accountancy. We have seen that we owe double entry book-keeping to the Italians of the middle ages: organized professional accountancy we owe to nineteenth-century Scotland.

In the late eighteenth century there were only a few men in Scotland calling themselves accountants: the first Edinburgh directory published in 1773 contains the names of seven such men; the first Glasgow directory (1783) contains the names of six accountants. The numbers increased quite rapidly in the first half of the nineteenth century. Accountants were active as trustees of sequestrated and deceased estates; they were engaged in winding up of partnerships, and in the keeping and balancing of merchants' account books.

The close links with the legal profession are apparent. Sir Walter Scott in a well-known letter written in 1820 described accountancy as one of the 'branches of our legal practice'. He also set forth what was required of an accountant – he should be

'steady, cautious, fond of a sedentary life and quiet pursuits, and at the same time proficient in arithmetic and with a disposition towards the prosecution of its highest branches'.

The first step towards the formation of a professional body of accountants was taken in Edinburgh on January 17th, 1853. On that date a Mr Alexander Weir Robertson sent to fourteen practising accountants the following circular:

15 Dundas Street,
17th January 1853.

'Several gentlemen connected with our profession have resolved to bring about some definite arrangement for uniting the professional Accountants in Edinburgh, and should you be favourable thereto I have to request your attendance in my Chambers here on Thursday next, the 20th inst., at 2 o'clock.'

As a result of this circular several meetings were held and an Institute of Accountants formed. A Royal Charter was applied for and granted under the name The Society of Accountants in Edinburgh in October 1854.

A similar body was formed almost at the same time in Glasgow; a Royal Charter was granted in March 1855 to The Institute of Accountants and Actuaries in Glasgow. A similar charter was granted to The Society of Accountants in Aberdeen in March 1867.

The same rapid growth in the number of practising accountants had also been taking place in England. According to city directories there was one accountant in London in 1776, forty-four in 1820, 107 in 1840, 210 in 1845, 310 in 1860 and 464 in 1870. English accountants were, however, slower to form themselves into organized associations. The first to be formed was the Incorporated Society of Liverpool Accountants in January 1870, followed by the Institute of Accountants in London (November 1870), the Manchester Institute of Accountants (February 1871) and the Sheffield Institute of Accountants (March 1877). These bodies came together and were granted a Royal Charter in May 1880 under the name The Institute of Chartered Accountants in England and Wales.

The preamble to the Charter shows clearly the services rendered by the English profession in 1880 and their relative importance. Mention is made first of their employment as 'liquidators acting in the winding up of companies and receivers under decrees', as 'trustees in bankruptcies or arrangements with creditors', and their acting in 'various positions of trust under Courts of Justice'. Almost as an afterthought comes 'the auditing of the accounts of public companies and partnerships'. No mention is made of income tax, secretarial work or management services.

The occupations of the first professional accountants are of more than antiquarian significance. They have, I think, greatly influenced the outlook of present-day accountants. Liquidators, trustees and even auditors are almost bound to be conservative and to be regarded as useful people for explaining what went wrong *after* it went wrong, but of little usefulness for any other purpose. Add to this the facts that during the last quarter of the nineteenth century whilst the infant profession was growing in Britain prices fell almost continuously and profits were depressed.

After Scotland and England had led the way, accountancy bodies were formed throughout the English-speaking world. In Australia, for example, the first organizations were the Adelaide Society of Accountants (1885), earliest of the antecedent bodies of the Institute of Chartered Accountants in Australia, and the Incorporated Institute of Accountants of Victoria (1886) (later the Commonwealth Institute of Accountants), the oldest antecedent body of the Australian Society of Accountants.

Start of compulsory audits

In the twentieth century, liquidation and trustee work declined in importance, auditing became more and more important – the United Kingdom Companies Act of 1900 made an annual audit obligatory for all registered companies – and income tax and cost accounting became topics on which practising accountants were expected to have an expert knowledge. They were first introduced in the Scottish Institute's examinations in 1906. By the beginning of the twentieth century auditing had become for many accounting firms the most important and remunerative part of their work. The first important auditing text was Pixley's *Auditors. Their Duties and Responsibilities*, first published in London in 1881; the first edition of Dicksee's *Auditing* – a book whose most recent (seventeenth) edition was published in 1951 – was published in 1892.

'Why', asked a leading Scottish accountant in 1905, 'should not the adjustment of an income tax return of profits, where a difficulty has arisen, be left to an accountant?'[1] Income tax problems did, in fact, occupy only a very small proportion of an accountant's practice before the First World War. Income tax had first been introduced into Great Britain by William Pitt the younger in 1799 in order to finance the war against Napoleon. It was repealed in 1802, but reintroduced – in a form more familiar to us

[1] Richard Brown (ed.) *A History of Accounting and Accountants* (Jack: Edinburgh, 1905), pages 339–340.

today – in 1803. It was discontinued in 1816 but re-introduced again by Robert Peel in 1842. Throughout the rest of the century it seemed to be always almost, but not quite, on the point of being repealed. Between 1850 and 1900 the rate was usually about *6d* or *8d* in the £. At the end of the century during the Boer War the rate rose to *1s 3d* in the £ and *The Accountant* and *The Incorporated Accountants Journal* (renamed *Accountancy* in 1938) began to devote an increasing amount of space to income tax problems (which they had previously almost completely neglected) and a decreasing amount to bankruptcy matters.

During the First World War taxation replaced bankruptcy as the most important branch of work after auditing in most accountants' offices. The standard rate rose as high as *6s* in the £. Rates have remained high ever since and it is well-known that many businesses keep proper accounts only for tax reasons. If it is true that taxation work has kept many accountants prosperous, it is also true that our modern system of taxation could not operate without the accountancy profession.

Cost and management accounting have so far made much less impact than income tax on the *practising* side of the accountancy profession. And, to be frank, it cannot be said that its development owes a great deal to such practitioners. The most important early English work on costing was Garcke and Fells's *Factory Accounts*, written jointly by an engineer and an accountant, and first published in 1887. There were few references to the subject in *The Accountant* before the 1890s.

It was not until the First World War that cost accounting methods became at all widespread in Britain. The Institute of Cost and Works Accountants was formed in 1919 as a specialized accountancy body. It was at first not welcomed by the English Institute and the Society of Incorporated Accountants, whose Councils claimed that cost and works accountants were 'not engaged in professional work' but were 'employed in the services of the traders'.

ACCOUNTANCY EDUCATION AND THE UNIVERSITIES

> 'But there is ground for some suspicion at least that a great majority of those who are at present leaders of the accountancy profession would, if they belonged to a later generation, have gone to universities. . . . The profession will be in a bad way if it does not substantially increase its recruitment of graduates during the next fifteen years.' C. F. Carter (Vice-Chancellor of the University of Lancaster) 'The Future of Accountancy Education', *Accountancy*, May 1965.

When the British accountancy societies were formed in the nineteenth century their leaders naturally studied closely the educational policies of the longer-established professions and in particular the system used by the legal profession, with which they had most in common. It is not surprising, therefore, that both the Scottish and English Institutes adopted a system of 'apprenticeship' or 'articled clerkship'. In the circumstances of the time, especially the lack of teachers and text books in accounting, this was undoubtedly the best system available. The system, as it has developed, is well known: practical experience is gained in the office; theoretical training is provided mainly by private correspondence colleges, although in Scotland the provision of tutorial classes by the Institute developed at quite an early stage.

The second half of the nineteenth century witnessed not only the rise of accountancy as a profession, but also the foundation of most of the great English civic ('redbrick') universities. The new universities were founded in busy industrial and commercial centres, but accounting failed to take root in them. Manchester, the largest of the civic universities, and the English Institute received their charters in the same year (1880), but there has never been a professor of accounting at Manchester. (The new Manchester Business School may appoint one in the 1960s.) At the beginning of the twentieth century only Birmingham University, where Dicksee was professor of accounting from 1902–06, the London School of Economics and the University of Manchester provided courses in accounting.[1] A number of other universities followed their example later.

'Universities Scheme'

In 1945 the 'Universities Scheme' was started. The participants were the English Institute, the Society of Incorporated Accountants (since amalgamated with the Chartered Institutes), the Association of Certified and Corporate Accountants and most of the Universities in England and Wales, with the notable exceptions of Oxford and Cambridge.

Graduates under the scheme are entitled not only to a reduction of the period of articles to three years but also to exemption from the professional intermediate examination. In both 1952 and 1959 only 3 per cent of the new articled clerks to members of the English Institute were participants in the scheme (*Parker Report*, 1961, page 10). The Parker Committee came to the conclusion that in 1961, even after fifteen years, there was still not enough evidence to show whether in general the scheme 'should be encouraged or abandoned or changed or left as it is' (page 55).

The Scottish Institute has always kept in fairly close touch with the universities. Attendance at university classes in law has always been compulsory for its apprentices. Part-time chairs of accountancy were established at the University of Edinburgh in 1919 and at the University of Glasgow in 1926. In 1956 a Special Committee on the Examination and Training of Apprentices (the 'Lister Committee') proposed that the third year of apprenticeship should compulsorily be spent full-time at a university during which period the apprentice would have to attend prescribed classes in accounting, law and economics, and be examined to degree standard in most subjects. This proposal was approved by the Institute's members in 1959 and introduced for the first time in 1960. In 1963 the Institute set up a special committee to review recruitment, education, training and examinations in the light of the Robbins Report on higher education. At the 1962 annual general meeting the President had stated that he 'would not be at all surprised to find that in the not too far distant future virtually all young chartered accountants would in fact also be university graduates, having completed a full degree course of three years at a university followed by an apprenticeship of, say, three further years'.

By North American or even Australasian standards, British academic accounting is not well developed. In Britain in 1965 there were seven chairs of accounting: two at the London School of Economics, one at Birmingham (at present vacant), one at Bristol, one at Cambridge (held by a distinguished applied economist), one at Edinburgh

[1] Vincent, E. W., and Hinton, P., *The University of Birmingham. Its History and Significance* (Birmingham, 1947), pages 141, 230; 'F.A.H.', 'The London School of Economics 1895–1945', *Economica* n.s. vol. 13, 1946.

(part-time) and one at Glasgow (part-time). In Australia, a country whose population is about one-fifth of Britain's, there are eight chairs of accounting (in two universities the title is 'professor of commerce' but the incumbents are accountants responsible mainly for teaching and research in accounting) and one 'professor of applied economics (with special reference to accounting)'. New Zealand with a population about one-quarter that of Australia has five chairs of accounting. In the United States there are so many chairs of accounting that I have not tried to count them!

It is clear that in English-speaking countries other than Britain, university education for accountancy is quite common. It is also worth noting that whereas in 1961 55 per cent of the students of the Law Society who had just passed their final examination were university graduates, the corresponding figure for the English Institute was only 16 per cent (*Robbins Report*, 1963, Appendix Two (B), page 380). This is a disturbing comparison since it is, as far as we have seen, from the legal profession that the present system of accountancy education in England and Wales was derived.

Conclusion

'We may be through with the past, but the past is not through with us.' Bergen Evans, *The Natural History of Nonsense* (London: Michael Joseph, 1947), page 11.

There is a tendency for accountants to treat accounting history in one of two ways: either they ignore it completely or they regard it as something rather quaint but certainly of no relevance to the problems of the present. Both these attitudes are wrong. The accountant who knows nothing of the origins of the techniques he practises can surely not be said to belong to a *learned* profession. The problems of the present arise to a large extent out of the practices of the past. This is perhaps most clearly seen when we consider the relationship between the universities and the profession. In Britain accountants may yet have to pay a heavy price for past neglect.

The Accounting World

Topics of Professional Interest from Other Countries

SOUTH AFRICA

Census of Accounting and Book-keeping Services

A COMPREHENSIVE census of accounting, auditing and book-keeping services available in the Republic of South Africa was initiated in October 1965 and is now well under way. The census is being made under the provisions of the Statistics Act, 1957, by the Director of Statistics.

The expression 'accounting, auditing and book-keeping services' is defined as comprising the functions of an accountant or auditor and any related services performed by accountants, cost and works accountants, cost and management accountants, book-keepers and other persons or partnerships of such persons on own account or placed at disposal for reward, whether on a full-time or part-time basis.

Any person who owned an accounting, auditing or book-keeping establishment during the twelve months ended June 30th, 1965, was required to submit a return containing all prescribed particulars and information in respect of the financial year of his establishment which ended on any date during the specified twelve months.

The return calls for full information regarding the establishment, such as the name under which the business is conducted, names and addresses of its proprietors, number of and other details of working proprietors or partners, unpaid family assistants, professional assistants, articled clerks and various other types of employees employed on remunerative work.

The return is required to be accompanied by a profit and loss account giving specified information relating to the salaries, rent and other office expenses usual in a professional establishment's income and expenditure account, and also a detailed analysis of income from various sources, such as audit fees, accountancy fees, liquidator's and executor's remuneration and so on. Finally, the return has to include a statement giving lengthy details of land, buildings, furniture, fittings and transport equipment held by the establishment at the beginning and end of its financial year.

Much interesting information should be available for the profession and members of the business community when the statistics arising from this census have been collated and published.

Public Accountants' and Auditors' Board, 1966

THE names of those appointed under the Public Accountants' and Auditors' Act, 1951, as members and alternate members of the Public Accountants' and Auditors' Board for a period of one year with effect from January 1st, 1966, were recently gazetted.

The four persons drawn from those holding high office in the full-time service of the State are Messrs W. J. C.

Wessels, A. J. Pretorius, H. C. J. van Rensburg and A. A. F. Keeton, with Messrs C. J. H. Edwards, C. R. B. de Villiers, D. S. Schmidt and C. W. T. Abrahamse, as their respective alternatives.

The two professors from universities in the Republic are Professors W. J. G. Fairbairn and J. A. Cilliers, with Professors W. A. Joubert and H. Greenwood, as their respective alternates.

The nominees of the societies of chartered accountants in South Africa are Messrs H. C. Twycross and H. A. Smith, with Messrs E. G. Moore and A. H. Lawrie as alternates (Transvaal); Messrs H. A. Morkel and H. Broide, with Messrs M. R. Lindhorst and J. A. Simpson as alternates (Cape); Messrs D. S. Turner and M. G. Crosoer, with Messrs W. R. Harte and D. W. Strachan as alternates (Natal); and Mr G. H. Surtees, with Mr P. J. A. Pienaar as his alternate (Orange Free State).

The nominee of the Rhodesia Society of Accountants is Mr A. G. H. Walker, C.A.(S.R.), with Mr R. G. Wuth, C.A.(S.R.), as his alternate. This appointee has the right to attend meetings of the Board and to participate in the proceedings thereof, but has not the right to vote.

UNITED STATES

Yale Express Collapse

LATE in 1964 the great trucking concern, Yale Express System Inc., reported nine months net earnings of $904,000. This was disappointing, coming as it did eighteen months after the acquisition of Republic Carloading & Distributing Co, a leading freight-forwarding company. But the outside world knew nothing of any difficulties until last March when, according to Mr Richard J. Whalen in *Fortune* (New York) for November, the company reported that the interim reports of profits were incorrect 'in the light of errors discovered in the 1964 accounts'. What had earlier been referred to as a profit for the year which might be as high as $1,800,000, became a loss estimated at $3,300,000. Next came the disclosure that a $1,140,000 profit in the 1963 financial statements (audited by Messrs Peat, Marwick, Mitchell & Co), should have been a loss of $1,200,000 and ultimately this loss was revised to $1,880,000.

Mr Whalen has revealed the whole story as developing from the inadequate internal controls of Yale. The company began as a short-haul trucker, with emphasis on personal contacts with customers, and its accounts were essentially on a cash basis. The president, Gerald W. Eskow, son of the founder, as a feature of its rapid growth and adjustment to the needs of the times, discarded multi-carbon forms and introduced the three-part waybill prepared by a tabulating machine, with the full use of electronic data processing. When the company sought later to establish ageing claims against its customers it found that it had discarded essential records. As things developed, the two enterprises of the merged concern, Yale and Republic Carloading, never worked well together, and there was faulty inter-company accounting. Republic had always used normal accrual accounting, many of its large freight account liabilities not being determined until well after the end of its financial year. When Yale proposed adopting for Republic the fast cut-off used by itself, like most truckers, the auditors say that they disagreed and cautioned against the change. Nevertheless, according to Mr Whalen, the change was made in 1964, and in the same year $575,000 was transferred into profits by reversing a Republic reserve for refunds of customers' overpayments. On top of this, and in the same direction, an error of $750,000 was made through omission of a reserve for interline payments. This meant that the 1963 income, before tax, was overstated by $1,325,000.

The president suspected fraud and asked the auditors to investigate. They themselves emphasize 'that the auditor's present function does not embrace ensuring anyone against fraud or the consequences of bad judgment'. In April 1964, they began a series of special studies which ultimately amounted to 8,000 man hours and a bill of $97,500, as reported by Mr Whalen. Yale was trying to get some idea of its true operating costs. By its old standards it was still making profits but the auditors are quoted as believing that 'Yale and Republic often were handling the same freight over and over'. Huge piles of misdirected and lost freight accumulated and Yale's claim ratio rose from the normal 1 per cent of revenues to 3 per cent. Yale even hired a force of college accounting students, under the auditors' direction, to reconstruct every transaction of 1964 and any 1963 payables not previously detected.

A new controller appointed in August 1964, finding that there had been no bank reconciliation for five months, is said to have found that cheques for $438,000 had been drawn but not entered in Yale's books. When asked by the First National City Bank for an 'ageing' of accounts receivable in support of a further loan, the controller was appalled to find that 24 per cent, amounting to nearly $2 million, were over-age.

From mid-August, writes Mr Whalen, Yale had in effect parallel accounting operations – one carried on by its own employees by day, on the basis of which the president declared the regular dividend and announced net earnings of $904,000, and the other revealed by the controller working with Messrs Peat, Marwick, Mitchell & Co by night.

Stock and debenture holders have filed suits against the officers and directors of Yale, and also against the underwriters and auditors. Mr Whalen says that what may emerge from this litigation is a definition of the auditors' responsibility in the circumstances that prevailed at Yale.

NETHERLANDS

New President of Netherlands Institute

PROFESSOR J. NATHANS, of Amsterdam, has been elected President of the Nederlands Instituut van Accountants for the year 1966. The new Vice-President is Mr A. F. Tempelaar, of Hengelo.

The retiring President, Mr P. J. H. J. Bos, of Amsterdam, informed the general meeting of members at which the elections took place, that the Institute is to start a research department in 1966. A committee of governors, appointed by the Council and consisting of six members of the Institute, will supervise the work of the new department.

RHODESIA

Rhodesia Society's President

FOLLOWING on the death of Mr W. A. Duff, C.A., C.A.(S.A.), C.A.(S.R.), former President of The Rhodesia Society of Accountants, Mr A. Underwood, F.C.A., C.A.(S.R.), Immediate Past President of the Society, has been elected to fill the vacancy.

Management Information

DEVELOPMENT OF MANAGEMENT TECHNIQUES

THE industrial revolution created the need for the first time for industrial and commercial organizations to make full use of the newly-found techniques of production. The very size and scope of these organizations put them outside the means of most individuals (or even the banks at that time) to finance. It was soon evident that money had to be obtained elsewhere. The nineteenth century saw the rise of the public company, its capital subscribed by shareholders.

The money produced by the public was given in trust, and this trust was sometimes shown to be misplaced. During the latter half of the nineteenth century and the early twentieth, the need to protect shareholders against misuse of their funds by those in control of companies was met by a series of Acts of Parliament. Responsible auditors were appointed to act on behalf of the shareholders and to report back to them on the financial affairs of the company.

Financial accounting, then, was an account of stewardship given retrospectively. Sometimes a month, or a year, or even more, elapsed between the date when a financial transaction occurred, and when the accounts of which it formed part were made available to the shareholders. The role of the accountant was to produce historical financial accounts, principally for shareholders but also for other outside parties such as creditors, the Inland Revenue and so on. Of course, these accounts were also used by management.

Advent of management accounting

In the first half of the twentieth century the ever-increasing size and complexity of business organizations (taking full advantage of the economies of large-scale production), meant that accounting became more complex, more sophisticated. Today, increasing numbers of accountants are entering the field of commerce to fill this need..

Parallel with this, another very significant change was occurring. The age of easy expansion was fast coming to an end. No longer was Britain the workshop of the world, filling the backward countries with her manufactured exports. Competition at home and overseas was intense. Profit margins became tighter, sales less easy to make. More and more, management found that day-to-day information about the activities of the organization was necessary for effective decision making – in particular, information about production costs. New methods were evolved which enabled this specialized type of knowledge to be provided reasonably accurately, and – more important – quickly enough to enable management to take the necessary decisions to control costs in time.

At first, this information was prepared in somewhat *ad hoc* ways, to meet the widely differing demands of management. Often the approach was quasi-statistical. As there were usually no other results against which these figures could be checked, their accuracy was open to doubt. It was found most convenient in practice to arrange them in such a way that they could be reconciled with figures obtained from normal financial accounts. Gradually the principle of relating cost accounts with financial accounts to form one overall set was accepted; today integrated cost and financial accounts are the norm.

The years following the Second World War have seen the arrival and growing acceptance by business management of a great number of new techniques, all designed to give greater productivity at lower cost. So great has been their impact that they amount almost to a revolution in managerial thinking. These techniques cover the whole spectrum of management-finance, marketing, personnel, production and organization.

New methods

Ten years ago a multi-million investment project decision, irrevocably committing a firm to a certain path for many years to come, would have been taken on largely irrelevant criteria. Today discounted cash-flow/present value analysis would be used, proper consideration given to the problems of risk and uncertainty, and a mathematical approach used in estimating its future position. Five years ago the planning and time-tabling of the engineering work going into this project would not have been streamlined by the use of PERT/critical path analysis. Even in the day-to-day running of a manufacturing business there are new quality control techniques (such as the 'cusum' chart control method), new methods of stock control and forecasting (such as exponential smoothing) – resulting in less capital being tied up, new methods of estimating sales by fitting trend curves to continuously up-dated past data, and so on. And over all these, there is the developing use of electronic data processing equipment, providing information quickly, storing it effectively, dealing with problems whose very complexity and magnitude put them outside the range of ordinary methods.

What is the position of the accountant in industry or in public practice in relation to these new techniques? Do they need to have a knowledge of analytical and statistical methods in order to provide management information? Should the traditional accountant, brought up on debits and credits, concerned that the book-keeping and the accounts are of the highest grade, stand aside from all this and leave it to consultants, to management accountants, and to computer and operational research specialists? Can

he really feel himself able to provide for the needs of management today, if he does?

* * * *

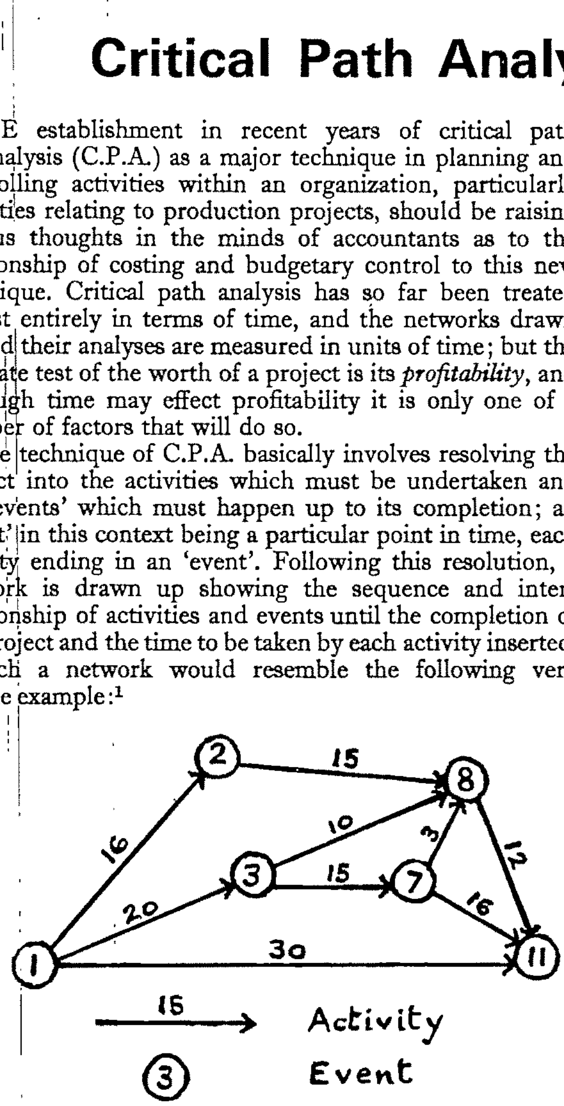
The answer to the last two questions posed above is, of course, an emphatic 'No'. The profession and its members must measure up to the demands being made on them. The professional bodies, in Britain and abroad, have begun to give a lead in this direction. *The Accountant* adds to its contribution by inaugurating this new feature – Management Information – to assist readers in keeping abreast of developments and techniques in the management field and in reflecting current writing and thought on management topics. We are indebted to Mr R. F. J. Dewhurst, M.A., A.C.A. and Mr M. G. Wright, B.COM., A.A.C.C.A., F.C.C.S., of The Polytechnic, School of Management Studies, for their valued assistance with this project, in which we shall also welcome the participation of readers.

Critical Path Analysis – the Whole Answer?

THE establishment in recent years of critical path analysis (C.P.A.) as a major technique in planning and controlling activities within an organization, particularly activities relating to production projects, should be raising serious thoughts in the minds of accountants as to the relationship of costing and budgetary control to this new technique. Critical path analysis has so far been treated almost entirely in terms of time, and the networks drawn up and their analyses are measured in units of time; but the ultimate test of the worth of a project is its *profitability*, and although time may effect profitability it is only one of a number of factors that will do so.

The technique of C.P.A. basically involves resolving the project into the activities which must be undertaken and the 'events' which must happen up to its completion; an 'event' in this context being a particular point in time, each activity ending in an 'event'. Following this resolution, a network is drawn up showing the sequence and inter-relationship of activities and events until the completion of the project and the time to be taken by each activity inserted.

Such a network would resemble the following very simple example:[1]



The figures inside the circles give a means of referring to the events, and the activities are defined by their head and tail numbers. The figures above the lines representing activities show the number of weeks each activity takes. Examination of such a network reveals which particular sequence of activities involves the greatest total time. In the example shown this sequence is 1 – 3 – 7 – 11 since this takes fifty-one weeks, whereas all other paths through the network have a shorter total time. This is called the *critical path* since any delay in completing any activity on this path will lengthen the total time for the project, whereas along other paths there is an element of unused time, or 'float' as it is often called, which is available to offset delays in any activities on those paths.

From the above it can readily be seen that attempting to reduce the project time by shortening the time duration of any activity, other than those appearing on the critical path, will only increase the float time on those paths. To reduce the project time, the activities appearing on the critical path itself must be reduced in time. Such reductions will result in a new critical path emerging if they reduce the total time of the old critical path below that of the next longest path, and so the process may be repeated.

Accountants may begin to recognize in this technique similarities to the process of budgeting. Whereas the budget is used to plan and control the activities of a business or project in financial terms, C.P.A. plans and controls those activities in terms of time – in other words, it is a time budget.

Accountants will further recognize that while C.P.A. may be used to arrive at the optimum use of resources from the time point of view, this may not be the optimum use from the financial point of view. And, indeed, the proponents of C.P.A. have recognized this factor. Mr Lockyer in his book goes some way towards taking into account the variations in costs due to changes in duration time.

If it is proposed to shorten the critical path in the example shown above, by reducing the time of the activity between events 3 and 7 from fifteen weeks to twelve weeks, what effect would this change have on the cost of this activity and on the overall profitability of the project? Putting on extra men and equipment is likely to raise the overall cost of that activity (though one could conceive of situations where this might be the reverse). Certainly the length of time that the business has money invested in the project will affect its profitability and the extra cost incurred in shortening the time cycle of the project may be offset to a greater or less extent by the reduction in the time one's capital is invested. Where there are activities which have a considerable float time, can costs be saved by scheduling the work over a longer period than originally planned?

It can be seen that it is difficult to arrive at a schedule for completing a project which is most beneficial to the business on the criterion of time only. Whilst time may be of such overwhelming importance on some projects that all other factors must be subordinated to it, in most cases the relevant costs of the different alternatives must be taken into account.

How is this to be achieved? The key lies in the statement made earlier, that C.P.A. is a way of budgeting a project in terms of time. It will not present insuperable problems to break down the financial budget in the same way that the

[1]Reproduced from *An Introduction to Critical Path Analysis*, by K. G. Lockyer, B.Sc. (Pitman.)

time factors have been broken down, so that there is a sub-division of the main financial budget for each activity shown in the network analysis. In this way, when one is considering whether or not to shorten the duration time of a particular activity, that section of the budget can also be examined and an estimate made of the financial implications of the proposed change.

Accountants should now be examining ways in which their budgeting techniques can be adapted to ensure that their organizations can derive the greatest benefit from the use of C.P.A. as a planning technique, and certainly a common ground for the preparation of networks and financial budgets seems to offer considerable scope for further development.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Becker *v.* Wright

In the High Court of Justice (Chancery Division)
December 15th, 1965
(Before Mr Justice STAMP)

Income tax – Foreign possession – Deed of covenant made abroad – For period incapable of exceeding six years – Whether income of covenantor – Finance Act, 1922, section 20; Income Tax Act, 1952, sections 123 (Case V), 392, 394.

The father-in-law of the respondent, the taxpayer, was resident abroad, and he made three deeds of covenant whereby he covenanted to pay to a bank an annual sum in trust for the taxpayer's wife (the covenantor's daughter) during the joint lives of the covenantor and his daughter or for a period of three years, whichever should be the shorter period.

The taxpayer, who was resident in the United Kingdom, was assessed under Case V of Schedule D in respect of the sums received through the bank from his father-in-law. The taxpayer contended, relying upon section 392 of the Income Tax Act, 1952, that as the income under the deeds of covenant was payable or applicable for the benefit of his wife for a period which could not exceed three years, the income had for all the purposes of the Income Tax Acts to be deemed to be the income of the covenantor. The Special Commissioners upheld this contention.

Held: section 392 was concerned only with income which, when the deeming process contemplated by the section had taken place, could be for all tax purposes the income of the person by whom the disposition was made; that could not be so in the present case because the covenantor was resident abroad; and therefore the section did not apply to the present case.

Cyril Lord Carpets Limited *v.* Schofield

In the High Court of Justice in Northern Ireland (Queen's Bench Division) – July 25th, 1965
(Before Mr Justice LOWRY)

Trade – Textile manufacturing – Purchase of machinery and plant – Capital grants by Government – Whether grants deductible in computing capital allowances – Law Reform (Miscellaneous Provisions) Act (Northern Ireland), 1937, section 16 (1) (c) – Income Tax Act, 1952, sections 323 (1), 330, 332 – Capital Grants to Industry Act (Northern Ireland), 1954.

The company, carrying on the business of textile manufacturing and warehousing, purchased machinery and plant, and received grants pursuant to the Capital Grants to Industry Act (Northern Ireland), 1954, in respect of that expenditure and of expenditure on industrial buildings. The first grant was paid on February 3rd, 1961, and was £37,508 and the second grant was paid on June 10th, 1961, and was £46,947.

The company contended that in computing the amount of its capital allowances under Part X of the Income Tax Act, 1952, no deduction should be made in respect of the grants, on the ground that the grants were discretionary and that they were to reimburse expenditure already met by the company as distinct from meeting expenditure still to be paid.

It was contended for the Revenue that the company's expenditure had been met by the Government of Northern Ireland directly or indirectly and that section 332 (1) of the Act required the amount of the grants to be deducted from the company's expenditure in computing the capital allowances available to the company. The Special Commissioners accepted the contention of the Revenue.

Held: pursuant to section 332 (1) the grants should be deducted in ascertaining the amount on which the capital allowances should be made.

Frowd *v.* Whalley

In the High Court of Justice (Chancery Division)
December 13th, 1965
(Before Mr Justice STAMP)

Income tax – Back duty – Receipts unaccounted for – Claim to have received them from controlled company – Whether taxable receipts – Whether sums owing to company – Income Tax Act, 1952, sections 52 (5), 156, (Schedule E).

The appellant, the taxpayer, was the managing director of a company, and in his returns for a number of years he omitted to include parts of his emoluments from the company. In an appeal against Schedule E assessments the taxpayer admitted certain deficiencies, but that still left an

unexplained increase in capital. The General Commissioners upheld the assessments.

In the High Court it was not contended for the taxpayer that the General Commissioners were wrong in holding that he had received the sums in question; but it was contended that he must be taken to have received those sums (or goods) from the company without the latter's authority; that he was liable to make good to the company accordingly; and that, therefore, he was not assessable under Schedule E in respect of the sums in question. A number of other comparatively minor points were made on the taxpayer's behalf.

Held: (1) as the taxpayer did not give evidence in support of the present contention before the General Commissioners and having regard to the nature of the new contention, the Court would not entertain it; (2) if the point had been taken before the General Commissioners they might well have concluded that the company was fully aware of the fact that the sums in question had been received by the taxpayer, more particularly in that he was at all material times in control of the company's activities.

Clayton *v.* Lavender

In the High Court of Justice (Chancery Division) December 16th, 1965

(Before Mr Justice STAMP)

Income tax – Office or employment – Whether office terminated or merely an alteration of its terms – Income Tax Act, 1952, section 156 (Schedule E) – Finance Act, 1956, section 10, Schedule 2.

The appellant, the taxpayer, was employed as a resident consultant with a company from August 1st, 1956, on the terms in a letter addressed to him by the managing director. The employment was to continue for five years, and thereafter to be terminable by six months' written notice on either side. About a year later the taxpayer informed the managing director that he did not wish to continue after the contracted period. Two days later the managing director suggested to the taxpayer that his agreement should be terminated on the following lines:

> 'We will pay you £4,000 per year for one year as from August 14, and £2,000 for the next year, that is to say, up to and until August 14, 1959.'

The company's car in the taxpayer's possession, it was suggested, should be retained by him, and the written-down value as at the last-mentioned date, should be deducted from the taxpayer's salary. These terms were accepted by the taxpayer, and the action of the managing director was subsequently confirmed by the board.

Payment of the sums agreed upon was made to the appellant by the company monthly; they were termed 'salary', and income tax under P.A.Y.E. and national insurance contributions were deducted. This was accepted by the taxpayer without protest. There was a course of correspondence between the Revenue and the company as to the circumstances of the termination of the taxpayer's employment.

It was contended on behalf of the taxpayer that notwithstanding the deduction of income tax and the payment of national insurance contributions as above, the £4,000 was paid to him in consideration of his surrender of his rights under the letter of August 1st, 1956.

It was contended on behalf of the Revenue that the taxpayer's office or employment was not terminated but continued; and, alternatively, that when the letter of August 14th, 1957, was written and accepted, there was an agreement, express or implied, that the taxpayer should, if called upon to do so, act in an advisory capacity for the period over which the payments were to continue.

Held: the taxpayer's office or employment was terminated on August 14th, 1957; and there was no agreement, express or implied, that the taxpayer should continue to serve the company in an advisory or any other capacity after that date.

Ralli Brothers Limited *v.* C.I.R.

In the House of Lords – December 15th, 1965

(Before Lord GUEST, Lord MORTON OF HENRYTON, Lord UPJOHN, Lord DONOVAN and Lord PEARSON)

Estate duty – Life interest – Remainder assigned to life-tenant – Assignment for short period – Death of life-tenant – Whether duty payable on income of short period – Whether payable on trust fund – Finance Act, 1894, sections 2 (1) (b), 2 (1) (d), 6 (2), 7 (1), 7 (5), 7 (10), 9, 14, 22 (1) (e) – Finance Act, 1940, section 43.

The deceased was entitled to a life interest in a trust fund, and subject thereto the property was to pass, under an appointment made by the deceased, to her grandsons, in equal shares absolutely. The appointment was made on December 5th, 1961. On the following day the two grandsons assigned to the deceased their interest, if any, in the income of the trust fund down to December 31st, 1965, with the intent that the interest assigned should merge with the deceased's life interest in the trust income, and so that the deceased's life interest might be enlarged into an absolute interest in the trust income up to the end of 1965 or on the deceased's death, whichever should be later. On December 12th, 1961, the grandsons released the power of revocation they had in the assignment deed. On December 24th, 1961, the deceased died.

Estate duty was claimed on the deceased's death, on the footing that the trust fund passed on her death. It was contended for the trustee that the only interest held by the deceased at the date of her death was in the trust income up to that date. It was contended on behalf of the Revenue (i) that the deceased's life interest had been disposed of within five years of the date of her death, and that section 43 of the Finance Act, 1940, applied, so that the trust fund itself passed on her death; (ii) alternatively, that on the death of the deceased a benefit arose or accrued within section 2 (1) (b) of the Finance Act, 1894. It was contended on behalf of the Revenue that at the date of her death the deceased's interest in the trust income was a right to receive all the trust income until she died or until December 31st, 1965; and that on her death the corpus of the trust fund passed, and section 1 of the 1894 Act applied.

Held (reversing the decision of the Court of Appeal): there was one continuing trust before and after the death of the deceased; but on the deceased's death there was not a cessor of her life interest; and that estate duty was not payable pursuant to section 2 (1) (b) of the Finance Act, 1894.

Finance and Commerce

Dennis Brothers

A LOOK at the accounts of Dennis Brothers Ltd, the specialist commercial vehicle group, will show clearly enough that the company has not been having a particularly easy time. The year covered by the accounts, which form this week's reprint, was not, however, the concern of Mr A. R. Stewart who did not become chairman until October 1st, 1965 – the day after the end of the financial year.

But, inevitably, it falls to him to explain what happened. Last June, Mr P. W. Lewis, the company's financial director, retired and Mr T. H. Sharman followed him at the end of the financial year and the matter of compensation for Mr Sharman is still in negotiation.

The year's loss, Mr Stewart says, was not due to any want of orders but, so far as the causes can be specified, to steadily increasing costs 'coupled with excessive purchases of raw material and parts, many of which will not be needed for the production programme for some time to come'. Causes of a less specific, but highly important, nature were high unproductive costs 'and a general want of up-to-date accounting information which would have enabled the board to see quickly where profits or losses were being made and to take correspondingly quick corrective action'.

When a 5 per cent maintained interim dividend was declared last April, the figures available to the board gave no indication that the results for the full year would be worse than the previous year. It will be seen that there is no final dividend, against 7 per cent previously.

Stocked stocks

Inadequate stock control and shortcomings in internal management accounting are not unfamiliar reasons for company troubles. The stock position in this case seems to have turned on purchases of material and parts intended to safeguard the company from shortages and later deliveries, although it is difficult, taking the size of the increase in stocks into account, to appreciate how deliveries looked like being late or how parts were, in fact, in short supply.

Mr Stewart is satisfied that a very large part of this stock will be needed to fulfil orders in due course but it will take months to restore the position to normal. Meanwhile, £100,000 has been transferred from general to stock reserve as a precaution. 'If it proves excessive, so much the better', the chairman comments.

The current position is that the company has orders in hand sufficient to keep the works occupied for a long time and that the, presently tight, cash position should be eased by the company working with smaller stocks. Considerable sums will be needed for reorganization, modernization and expansion of production over the next few years but steps are already being taken to realize some of the company's

DENNIS BROTHERS LIMITED

CONSOLIDATED BALANCE SHEET 30th September 1965

	£	£	1964 £
Issued Share Capital of Dennis Brothers Ltd		760,418	*760,418*
Share Premium Account		10,099	*10,099*
Revenue Reserves and Undistributed Profits			
General Reserve	400,000		*500,000*
Stock Reserve	100,000		—
Profit and Loss Account	393,609		*563,800*
		893,609	
Future Income Tax		—	*20,209*
Current Liabilities and Provisions			
Bank Overdraft	352,243		—
Trade and Other Creditors and Accrued Charges	714,658		*475,670*
Taxation	30,232		*90,420*
Unclaimed Dividends	558		*540*
Proposed Final Dividend, less income tax ..	—	1,097,691	*32,603*
		2,761,817	*2,453,759*

	£	£	1964 £
Fixed Assets (Note 1)		285,050	*268,616*
Goodwill arising on consolidation		88,638	*88,638*
Current Assets			
Stock-in-Hand and Work-in-Progress (including development expenditure NIL (1964 £40,906)) at the lower of cost or net realisable value	1,788,656		*1,323,850*
Amounts receivable less provisions ..	586,556		*615,319*
Deposits at Municipalities at short call ..	—		*120,000*
Cash at Bank and in Hand	12,917		*37,336*
		2,388,129	
		2,761,817	*2,453,759*

A. R. STEWART
R. T. BARNFIELD

To be read in conjunction with the notes on page [229]

DENNIS BROTHERS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30th September 1965

		£	£	1964 £
Profit from the manufacturing and trading activities of the Group before bringing into account the undermentioned items			2,141	149,904
Add: Transfer Fees		—		
Interest and Rents Receivable		10,983		
Profit on Sale of Know How		2,500		
Profit on Sale of Freehold Land and Houses		6,845		
			20,328	9,732
			22,469	159,636
Less: Depreciation of Plant (after deducting profit on sales of £11,394 (1964 £7,106))		38,876		38,037
Audit Fee and expenses		1,856		1,408
Directors' Fees		3,813		3,669
Directors' Remuneration as Managers		19,747		15,673
Pensions to retired executive Directors		1,800		1,800
Payment to a past Director		2,961		—
Consultants' Fees		10,944		2,500
Employees' Pensions, Retirement and Assurance benefits and Graduated Pensions		25,671		27,023
Bank Interest and Charges		9,374		—
			115,042	
			(Dr.) 92,573	(Cr.) 69,526
Less: Overprovision of Tax in previous years		5,347		
Taxation based on the results of the year				
Profits Tax	1,653			
Income Tax	—			
Corporation Tax at 40%	2,175	3,828		—
			1,519	4,393
			(Dr.) 91,054	(Cr.) 73,919
Add: Interim Dividend of 5% paid 27th May, 1965, less income tax		22,337		23,288
Final Dividend		—		32,603
Development Expenses		56,800		—
			79,137	
			(Dr.) 170,191	(Cr.) 18,028
Balance brought forward from last year's Account			563,800	545,772
			393,609	563,800

To be read in conjunction with the notes [opposite]

DENNIS BROTHERS LIMITED

NOTES TO THE ACCOUNTS

The revenue profits for the year 1964 disclosed by the Consolidated Profit and Loss Account included a full year in respect of the Company but only 7 months in the case of the subsidiary companies, consequently the figures are not wholly comparable with those for 1965.

1. Fixed Assets

	At 30.9.64	Additions	Cost of items sold or scrapped	At 30.9.65	Depreciation already provided	Depreciation now provided	Net book value 30.9.65
	£	£	£	£	£	£	£
Freehold Land and Factory—at cost	315,869	3,965	—	319,834	215,150	—	104,684
Freehold Land and Houses—at cost	72,346	—	1,125	71,221	43,588	—	27,633
Leasehold Property Improvements	4,857	623	—	5,480	141	275	5,064
Plant, Machinery and Equipment	768,159	69,989	29,232	808,916	612,617	48,630	147,669
	1,161,231	74,577	30,357	1,205,451	871,496	48,905	285,050

(a) A professional valuation made at 31st March 1965 showed the Company's Freehold Land, Factory and House Property at Guildford to be worth £1,305,500 and, as previously, no further depreciation has been provided. Depreciation of Plant, Machinery and Equipment is provided on a straight line basis at rates varying between 12½% and 25% of cost. Leasehold property improvements are written off over the period of the lease.

(b) Goodwill (including purchase of business in 1913) of Dennis Brothers Ltd. amounting to £107,597 had been written off prior to 30th September 1963.

(c) Outstanding Commitments for capital expenditure at 30th September 1965 amounted to:
The Company £9,557 (1964 £5,912). The Group £9,557.

2. There is a liability, which is subject to agreement, arising on the retirement of the late Chairman and Managing Director.

assets in the form of house property (worker tenants may be given options to purchase). As a longer term measure it may be possible to concentrate the factory and dispose of surplus land and buildings.

Reorganization

Urwick Orr & Partners, management consultants, have been engaged to help the board to obtain increased productivity in the factory, to examine overhead expenditure and to provide adequate management control information. 'These improvements', Mr Stewart admits, 'are long overdue and it must be appreciated that a situation which has arisen over a long period cannot be put right overnight'.

Some progress has already been made. New production arrangements are in hand, wage rates and systems of payment are being revised to give added incentive and attract new workers, and board decisions are being assisted by management control information. Overheads have already been cut but Mr Stewart warns shareholders that 'it will be some time before the additional costs of reorganization will be absorbed by increased production'.

It should be appreciated at this point that for some years there have been indications of divisions within the Dennis board on policy and operational matters. Mr Stewart is, in fact, the company's fourth chairman in little more than two years. For a spell Sir Charles Westlake was chairman but it became clear that his attempts at reorganization did not receive full support.

Rumours

Not unnaturally, the company has been the subject of considerable stock-market rumours and Mr Stewart deals with these in his review. On take-over reports he says, 'I am not aware of and am not expecting any such bid',

DENNIS BROTHERS LIMITED

COMPARATIVE FIGURES

PROFIT AND LOSS ACCOUNTS FOR LAST 7 YEARS—£'000

	1959		1960		1961		1962		1963		*Consolidated* 1964		*Consolidated* 1965	
Manufacturing and Trading		120·6		141·4		136·7		205·1		215·4		149·9		2·1
Transfer Fees, Interest, Rent, etc.		22·2		22·3		10·8		17·3		15·3		9·7		20·3
		142·8		163·7		147·5		222·4		230·7		159·6		22·4
Depreciation	31·6		30·5		28·3		38·4		40·3		45·1		50·2	
Directors	14·9		18·2		17·8		15·7		13·7		19·3		23·6	
Pensions	13·7		13·8		15·7		27·2		22·5		27·0		25·7	
Consultants' Fees	—		—		—		—		—		2·5		10·9	
Sundries	1·6	61·8	1·6	64·1	1·6	63·4	7·4	88·7	3·0	79·5	3·2	97·1	15·9	126·3
		81·0		99·6		84·1		133·7		151·2		62·5		(Dr.) 103·9
Taxation		19·5		49·5		—		40·5		81·5		20·9		3·8
		61·5		50·1		84·1		93·2		69·7		41·6		(Dr.) 107·7
Tax over/under provided		7·3		1·4		8·5		6·0		(7·8)		5·3	5·3	
Tax Equalisation A/c		·2		·6		—		·7		·2		19·9	—	
Profit on sale of Plant		—		—		—		—		9·1		7·1	11·3	16·6
		69·0		52·1		92·6		99·9		71·2		73·9		(Dr.) 91·1
Dividends		56·0		46·0		46·0		46·0		55·2		55·9	22·3	
Development Expenses		—		—		—		—		—		—	56·8	79·1
Retained		13·0		6·1		46·6		53·9		16·0		18·0		(Dr.) 170·2
Brought forward		410·2		423·2		429·3		475·9		529·8		545·8		563·8
Carried forward		423·2		429·3		475·9		529·8		545·8		563·8		393·6

BALANCE SHEETS FOR LAST 7 YEARS—£'000

	1959	1960	1961	1962	1963	*Consolidated* 1964	*Consolidated* 1965
Capital	751	751	751	751	751	760	760
Share Premium	—	—	—	—	—	10	10
General Reserve	500	500	500	500	500	500	400
Stock Reserve	100	100	—	—	—	—	100
Profit and Loss A/c	423	429	476	530	546	564	394
Own Funds	1774	1780	1727	1781	1797	1834	1664
Future Tax	33	56	21	36	75	20	—
Creditors	203	269	206	185	179	476	716
Tax	61	22	29	21	48	90	30
Final Dividend	23	23	23	23	32	33	—
Bank	—	—	—	—	—	—	352
Liabilities	325	370	279	265	334	619	1098
	2099	2150	2006	2046	2131	2453	2762
Freehold Property, etc	108	108	108	108	106	133	138
Plant	96	81	81	99	97	135	147
Goodwill	—	—	—	—	—	89	89
	204	189	189	207	203	357	374
Stock	1144	1280	1199	1169	1239	1283	1788
Debtors	380	450	404	392	516	615	587
Cash	371	184	175	235	132	157	13
	1895	1914	1778	1796	1887	2055	2388
Development A/c	—	47	39	43	41	41	—
	2099	2150	2006	2046	2131	2453	2762

although shareholders would, of course, be informed if any serious approach were to be made.

There were also suggestions that, since Mr Stewart was a director of Hill Samuel & Co Ltd, his becoming chairman of Dennis Brothers indicated a Hill Samuel financial interest, but that is not so. The question of the value of the company's Guildford works and property has also raised take-over talk from time to time. The notes to the accounts show the properties to have been revalued at £1,305,500 as at March 31st, 1965.

Making a move from the present site would be extremely expensive and hazardous and, although the proposition has been considered, the directors are convinced that the right course is to concentrate on correcting the faults in the organization and increasing profits in the present location.

The Dennis Brothers accounts, and the chairman's statement, show the all too familar reasons for losses taking an unprepared board of directors by surprise. It is possibly some consolation for shareholders that remedial action is being taken now before matters get worse.

The annual meeting was adjourned following moves to co-opt to the board leaders of certain shareholders pressing for the company to be wound-up. A fresh vote was called for and the chairman has threatened resignation should the vote at the forthcoming meeting go against the board.

CITY NOTES

HAVING been saved from the problems posed by a rail strike, the stock-markets this week have again been able to concentrate on inflationary and weight of money factors. Those who see these two elements as the main driving force in equities to the exclusion almost of any other influence have had their opinions reinforced.

So far as the weight of money is concerned, the operations of the unit and investment trusts are a major influence. Block offers by unit trusts are coming thick and fast and the launching of the Triplevest investment trust by Samuel Montagu and J. Henry Schroder Wagg & Co, raising some £20 million of money all told, must inevitably point to the extent of funds to be committed to the stock-market.

But whether the equity market can continue to live on the weight of money factor *ad infinitum* is still the number one conundrum. For the time being, however, it will be surprising if the 'bulls' in the market do not continue to see their optimistic assessments proved correct.

* * * *

IN a survey of the Government's proposed cash grants scheme, a prominent stockbroking firm which prefers to remain anonymous comments on the accounting – and dividend – problems the new system involves. Stating that for Inland Revenue purposes the cash grant must be regarded as a capital receipt – and therefore excluded from the company's revenue account – the effect, the brokers say, will be to reduce still further the level of distributable earnings, already cut into by corporation tax.

The brokers hope that 'boards will take an enlightened view of an apparently smaller earnings cover, and not penalize the shareholder by reducing his dividend unnecessarily'. But it is acknowledged that it may well be part of the Government's intention that retentions should be increased in this way.

'Directors', the brokers suggest, 'should keep well in mind that the relationship between dividends and retentions should depend on company policy and needs rather than accidents of book-keeping procedure'.

* * * *

INTERVENTION of the Monopolies Commission in two major take-over bids is not necessarily the end of take-over battles. The two matters in question, the Ross Group bid for Associated Fisheries and the Dental Manufacturing bid for Amalgamated Dental, are affairs in which there would appear to be some justifiable intervention.

What the intervention does, of course, is to put the bids 'on the ice' for the time being, and the bidders have lost the initiative. Once lost, initiative is not readily regained, for in the interim the defenders can reorganize their defences.

There is plenty of scope left for industrial mergers on an agreed basis – as distinct from take-overs by attack – which will not fall foul of the Commission.

RATES AND PRICES

Closing prices, Tuesday, February 15th, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Dec. 10 ..	£5	9s	4·64d%	Jan. 14 ..	£5	9s	9·73d%
Dec. 17 ..	£5	10s	3·74d%	Jan. 21 ..	£5	9s	0·33d%
Dec. 23 ..	£5	10s	5·88d%	Jan. 28 ..	£5	9s	8·03d%
Dec. 31 ..	£5	10s	5·08d%	Feb. 4 ..	£5	10s	1·22d%
Jan. 7 ..	£5	10s	5·20d%	Feb. 11 ..	£5	11s	3·91d%

Money Rates

Day to day ..	4⅜–5½%	*Bank Bills*	
7 days	4¼–5½%	2 months ..	$5\frac{15}{16}$–6%
Fine Trade Bills		3 months ..	$5\frac{15}{16}$–6%
3 months ..	7–7½%	4 months ..	$5\frac{15}{16}$–6%
4 months ..	7–7½%	6 months ..	$5\frac{15}{16}$–6%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	$2.80\frac{5}{32}$	Frankfurt ..	$11{\cdot}25\frac{17}{32}$
Montreal ..	$3{\cdot}01\frac{25}{32}$	Milan	1751½
Amsterdam ..	$10{\cdot}15\frac{27}{32}$	Oslo	20·03⅛
Brussels	139·43	Paris	13·74
Copenhagen ..	19·33⅝	Zürich	12·15

Gilt-edged

Consols 4% ..	$59\frac{11}{16}$	Funding 6% 1993 ..	$91\frac{5}{16}$
Consols 2½% ..	$38\frac{9}{16}$	Savings 3% 60–70 ..	$86\frac{5}{16}$
Conversion 3½% ..	53⅞	Savings 3% 65–75 ..	$74\frac{13}{16}$
Conversion 5% 1971	$94\frac{5}{16}$	Treasury 6½% 1976	100⅜
Conversion 5¼% 1974	$93\frac{5}{16}$	Treasury 3½% 77–80	$74\frac{5}{16}$
Conversion 6% 1972	98¾	Treasury 3½% 79–81	$71\frac{9}{16}$
Funding 3½% 99–04	58½	Treasury 5% 86–89	82⅞
Funding 4% 60–90	94½	Treasury 5½% 08–12	83⅜
Funding 5¼% 78–80	$88\frac{9}{16}$	Treasury 2½% ..	$38\frac{9}{16}$
Funding 5½% 82–84	89⅜	Victory 4%	$95\frac{13}{16}$
Funding 5¼% 87–91	$91\frac{11}{16}$	War Loan 3½% ..	53⅛

Budget Representations

by The Association of Certified and Corporate Accountants

Extracts from the memorandum submitted last week to the Chancellor of the Exchequer.

THE Council of the Association has this year concentrated on the Finance Act, 1965, in an endeavour to draw attention to inequities and anomalies inherent in the Act which in the opinion of the Council should be corrected. The last section of the submission deals with other matters that it is considered need urgent reform.

GENERAL STRUCTURE OF THE CORPORATION TAX

1. ALL COMPANIES

Preference dividends

We can see no reason whatsoever for treating fixed preference dividends payable at a reasonable commercial rate in a way different from interest on loans or debentures. It is generally a matter of historical accident that preference shares rather than loans or debentures were issued, and there is no such significant difference between the two methods of raising capital as warrants the great difference now existing in the cost of servicing the two forms of capital. A company has to earn a profit of £10,000 to pay debenture interest of £10,000; if corporation tax is to be at the rate of 35 per cent it has to earn a profit of £15,384 to pay a preference dividend of £10,000. Hence, there has been created an injustice which arises not out of any fundamental taxation principle but by reason of pure chance. In some cases the injustice can be overcome by a scheme of capital reorganization, but this will not always be possible without involving other taxation difficulties, and in our opinion it is undesirable that a taxation framework should exist which gives cause for such schemes.

In our opinion preference dividends at a fixed and commercial rate should be treated for corporation tax purposes in the same way as debenture and loan interest.

Dividends out of pre-1966–67 profits

Section 85, of the Finance Act, 1965, is intended to give some relief where dividends paid after April 5th, 1966, are paid out of profits earned before that date which have already suffered income tax thereon. The calculation of the relief seems unnecessarily complicated. If income tax has been suffered for the year 1965–66 this should exhaust the liability to income tax on profits earned up to April 5th, 1966, and we do not accept as valid any proposition which asserts otherwise unless, on the assumption that there had been a cessation of trading at April 5th, 1966, there would have been any further profit assessable under the cessation rules. Indeed the process of thought behind section 87 (relief for cessations after April 5th, 1966) – limited though that relief is and though insufficient, in our view, it seems to be based on the proposition which we assert is valid, namely, that all profit earned up to April 5th, 1966, has borne income tax and should not bear income tax again.

In our opinion section 85 should be both simplified and extended so as to grant relief from income tax in respect of any dividend paid after April 5th, 1966, out of pre-April 6th, 1966, profit.

Foreign taxation and overspill relief

We do not accept as valid the proposition underlying much of the corporation tax structure that the income of the company and the distributed income of its shareholders are different taxable sources, and we cannot therefore accept as just the proposition that because the rate of corporation tax may be less than the old combined rate of income tax and profits tax there is a case now for restricting double taxation relief to the corporation tax rate. In our view it is proper that a profit earned abroad should bear only the higher of the ultimate rate of tax suffered in either country, but it is improper to create an artificial dichotomy between a company and its shareholders and to use this to support a proposition that the rate in this country has been reduced.

In our opinion a way must be found to give full relief for all overseas tax suffered so that the transitional and tapering reliefs as now provided in section 84 cease to be required.

Premiums on redemption of capital

Certain premiums paid on the redemption of shares by a company will rank as a distribution (paragraph 1 (1) (*b*) of the Eleventh Schedule to the Finance Act, 1965,) so that the recipient will suffer taxation thereon at the rate applicable to the highest part of his income. We consider this to be unjust where the individual has held the shares for more than twelve months for, in effect, the result is that he will suffer the equivalent of short-term capital gains tax on a long-term transaction.

In our opinion all taxable premiums, or similar payments, on the redemption of shares should be taxed only under the capital gains tax provisions.

Bonus issue after a redemption of capital

In our view it is in all respects desirable, especially if the ploughing back of profit for development is to be encouraged, that the issued ordinary share capital should be augmented from time to time to accord with the real capital employed in the business, but it must be acknowledged nevertheless that this is a mere book entry and adds nothing to the real worth of the shares. Paragraph 1 (3) of the

Eleventh Schedule introduces a penal and, in our view, inequitable charge to tax where such a bonus issue is made at, or at any time after, a redemption of share capital. We can see no grounds at all for such a charge to tax which may fall on persons who in no way benefited, or could have benefited, from the earlier redemption.

In our opinion paragraph 1 (3) of the Eleventh Schedule to the Finance Act, 1965, should be repealed.

2. CLOSE COMPANIES

Participators and associates

We can see some grounds (though not many) why there should be different treatment of closely held companies compared with companies not controlled by any small group of persons, but we think it unfortunate that the definition of participators (and of associates) is so widely drawn as:

(*a*) will treat as close companies many companies which, in truth, are not controlled by a small group; and

(*b*) will render it impossible for the company or its advisors to determine whether a company is or is not a close company.

In the first case, the company may suffer additional tax which, if there is any equity, it ought not to suffer; and in the second case it will be impossible either to compute or to determine its liability with any certainty.

In our opinion there should be:

(*a*) *a significant scaling down of the degrees of remoteness by which persons become associates of a participator;*

(*b*) *a time limit of two years from the end of an accounting period in which the Inspector of Taxes can show cause why a company should be treated as a close company, failing which the company should be treated as a non-close company.*

Distributions to participators

We consider it is improper and offending all taxation principles that any more than the true profits of a business should suffer tax. We can see no reason at all why interest, payable at a commercial rate on money borrowed for business use, should be disallowed for corporation tax purposes simply because it is payable to a participator who is a director or to an associate of his. Nor, by the same reasoning should there be a disallowance of other annual payments which are commercially justified and for a proper consideration.

In our opinion such annual payments by a close company should be treated in the same way as are payments in respect of rent and copyright royalties.

Shortfalls of distributions

Broadly the new legislation in relation to non-close companies is such as to penalize distributions and to encourage the retention of profit for development and expansion. Although it is a matter for argument whether or not that is a good policy since by so doing there may develop less of an incentive for the efficient use of capital resources, nevertheless there is no validity in the assumption in the legislation that close companies are somehow, in this respect, different from others. We can see no reason why, in the present context of a capital gains tax attaching to any increment in the value of shares in a company, there is any need whatsoever for the taxation of shortfalls of trading profit retained for the development of a business.

In our opinion the shortfall provisions ought to be repealed except in so far as they relate to investment income of a company.

GENERAL STRUCTURE OF CAPITAL GAINS TAX

Increases in value

In the age in which we live any increase in the value of an asset is likely to include an inflationary element, for it is idle to assert that inflation has ended or is likely to end in the foreseeable future. A tax is levied on the arithmetical increase in value and the tax ceases to be, in part, a capital gains tax and becomes a capital expropriation. If there is to be any expropriation of an individual's capital we think it should be upon his death and not in the years when he is seeking to build up and develop his resources.

In our opinion therefore, there should be a reduction of any computed capital gain by a factor to allow for the inflationary element therein as is done in many other countries.

Reinvestment

There is in truth no capital gain if the whole proceeds of the sale of an asset are reinvested and we think it is improper for there to be discrimination between the one who keeps his portfolio intact and unchanged and the other who switches his investment from time to time. There is intrinsically no more (and no less) merit in the one than the other; but the sum of the actions of the one, while suffering no tax, stultifies development whereas those who facilitate the financing of development may suffer tax in order to free their assets for such use. We cannot conceive of any benefit to be derived from a taxation system which may lead to the locking up of funds which would otherwise be redeployed.

In our opinion there should be no capital gains tax chargeable when the whole proceeds of the sale of an investment are reinvested.

Exemption limit

As accountants we are in the position of having to cope with all the practical difficulties likely to arise in the administration of the capital gains tax. The Inspector of Taxes, even if not provided with a computation of liability, will be provided with the information necessary to draw up the computation. We, however, have the problem of actually getting together the information. In many cases this will involve research through papers and records going back many years and, in the case of dealings in stocks and shares, may involve research as to bonus issues, rights issues and conversions and inquiry into perhaps many transactions of purchase and sale of small holdings forming part of a larger holding of a particular security. After all this research it may be found that the gain is trifling or even that there is no gain at all. In many such cases it would be apparent that there was no gain of any significance, but in all cases, as the law stands at the moment, the whole laborious process must be gone through.

In our opinion it would greatly facilitate the administration of the tax without causing any significant loss of revenue if it

were provided that any gain up to £100 should be exempt from tax up to a total of not more than £500 in any one year.

Losses

A loss is to be carried forward unless there is some gain in the same year against which it can be set. Many people may have only a few chargeable assets and if the last one is disposed of at a loss it ought to be possible to set this loss, and any other loss brought forward, against past capital gains; so too should losses on a valuation at death be set backward against profits realized at any time during a life (in place of the limited three-year provision in section 24 (5) of the Finance Act, 1965) and, similarly, losses incurred in the liquidation of a company. Otherwise, what purports to have been a tax on capital gains will, in the event, prove to have been a capital expropriation.

In our opinion losses should be able to be set backward as well as carried forward.

Duplication of tax on the same gain

We think it deplorable that (except in the case of certain investment companies) the same capital gain can be successively taxed in the hands of a company and its shareholders. If capital gains are to be taxed then that becomes a fact of business life which can be accepted, but there ought not to be a duplication of taxation arising simply because of the constitution of the organization which makes it. A capital gain is always identifiable and need never get lost in an amorphous pool of trading profits, and if it is taxed once in the hands of a company it ought not to be taxed again either when it emerges to the shareholder as a distribution or if it inures to the shareholder as an accretion to the value of his shares.

In our opinion there should be provisions to enable all capital gains made initially by a company to be franked so far as shareholders are concerned so as to be free of further tax thereon.

Long-term gains

Just as there is reason in the proposition that short-term gains should be taxed at a higher rate than long-term gains so is there equally reason in the proposition that the longer the term the lower should be the rate of tax. The acceptance of this proposition would result in the better understanding by the taxpaying public that governmental pleas for incentive, endeavour and technological advance were more than mere lip service to noble conceptions, and coupled with our suggestion that reinvested gains should not be taxed would open the way to real development in the effective use of capital.

In our opinion there should in all cases be a progressive reduction in the basic rate of tax for each year up to twenty years for which the asset was held in the intent that any gain after twenty years should be free of tax and the tax rate should be halved on any disposal after ten years.

TAXATION GENERALLY

Expenses for Schedule E purposes

Attention is drawn to the fact that no action has been taken despite the announcement of the Financial Secretary to the Treasury on July 2nd, 1957, to implement the recommendation of the Royal Commission that the restrictive wording of paragraph 7 of the Ninth Schedule to the Income Tax Act, 1952, should be revised. It is common knowledge that in order to carry on an employment many expenses may have to be incurred that are not allowable under the present rule. It is another indication of rough justice being in truth injustice to assert as has been asserted, that the rule is the same for all. It is very different indeed for him who is highly remunerated than for him who is not.

In our opinion the rule should be amended to allow for tax purposes all expenses reasonably incurred in the performance of the duties of the employment.

Losses

A taxpayer should not have to pay tax for any year on more than his real income of that year. Income is assessable nowadays under various sets of rules depending upon the class of the income. In general, losses in any one class can only be set against income of that same class; only in the case of a loss in a trade or profession can that loss be applied against income outside its class. We see no merit in this, nor any justice between one taxpayer and another, any of whom may have the same monetary income but who may each, because of these rules, suffer very different amounts of tax.

In our opinion all losses of any kind, including realized capital losses, should be allowed against any assessable income.

Basis of assessment – Schedule D – Cases III, IV and V

We have, on several occasions, called attention to the desirability of assessing income under Cases III, IV and V of Schedule D on the actual year basis.

The case of *Hart v. Sangster* (1957) 37 T.C. 231, concerning bank interest showed that many assessments under Case III should be made on an actual basis if the law is strictly applied. The layman, however, seldom understands all the complications of the existing system, and we suggest that the retention of the present law with its anomalies in the opening and closing years is both unnecessary and inequitable.

The treatment of dividends, interest and other income from abroad is also complicated. If such income is receivable direct from overseas by a resident of the United Kingdom it is normally taxed on the preceding-year basis under the appropriate Case of Schedule D, but if it is received through a paying agent in this country, different rules apply and the taxpayer is assessed on the income of the year of receipt. The method of receipt therefore determines the basis of assessment which is illogical. Furthermore, the alternative bases of assessment give rise to unnecessary work and present opportunities for avoidance.

Over the whole period of a source of income, tax should be levied on the actual income and not on some figure which may be either greater or less than that income. If this were done, there would be the added benefit that the double taxation relief anomaly caused by reason of the commencement and cessation provisions of Schedule D would not arise.

In our opinion all assessments under Cases III, IV and V should be based on the actual income of the year of assessment.

Correspondence

Business Ratio Models

SIR, – May I reply to the interesting points raised by Mr D. R. Myddleton (February 5th issue) on my article 'Business Ratio Models', which appeared in your issue of January 29th:

(1) The indices used were based on the retail price index but had been adjusted to suit their use in the field of machinery and plant valuation. (Tables of these 'adjusted' indices are published from time to time for this purpose.)

(2) I agree that the method of arriving at an annual 'capital lost' figure is not exact, and a more specific calculation can certainly be made. The method I adopted is a reasonable approximation where there has been a fairly constant pattern of machine utilization and replacement.

(3) The figure of £14,000 depreciation in 1965 was not intended to be strictly *pro rata* to the historical depreciation basis adopted hitherto, but had it been so, I agree with Mr Myddleton's calculation of £9,571.

(4) There is certainly merit in calculating the ratios after tax, but I suggest that it is desirable to examine both the before and after tax positions. The 'return on assets', however, should be on the gross assets, not only for the point that Mr Myddleton rightly makes, but to avoid distorted returns arising from high creditor financing. A company in an overtraded position with high current liabilities can show an apparently high return on net assets, giving a misleading impression of efficiency.

Yours faithfully,

Egham, Surrey. T. K. MULLIN.

Public Accountants' Computer Centre

SIR, – Referring to Mr A. E. M. Harbottle's interesting article in your issue of February 12th, I feel that the weakness in the stock control system is that it depends entirely on clerical accuracy in marking the stores delivery sheet.

For example, in the sheet illustrated on page 189, line 24 appears to have been marked 144 (2+10, × 12) whereas it should be 192; and line 36 appears to have been marked 48 (1+3, × 12) whereas it should be 54.

A simple method of ensuring accuracy (other than unlikely compensating errors) would be to arrive at a grand total for each sheet by comptometer and to mark this total in a box at the bottom of the scanning area.

When the punched paper tape is read into the computer, the sum of the entries marked would be compared with the grand total, and an error report printed should the totals differ.

Yours faithfully,

A. E. NICHOLS, A.C.I.S., A.C.W.A.

Director,

London W1. EDP SYSTEMS LIMITED.

Mathematics in Accountancy

SIR, – In his third article on 'Mathematics in accountancy' (*The Accountant*, January 8th issue), Mr Dewhurst says 'There is a close similarity between cumulative D.C.F. tables and annuity tables. They are not identical; the reciprocal of a sum is not equal to the sum of the reciprocals'.

The relevance of the last remark escapes me, and since a cumulative D.C.F. table does, in fact, give the present value of annuities, it would be interesting to know what Mr Dewhurst means.

Incidentally, readers trying to use the formulas on page 47 should realize that the logarithms are natural logarithms, i.e. to base *e*, not 10. The 'exponential probability curve' is presumably meant to be the normal curve. And finally, matrix algebra a 'new technique'? Shades of Bayley!

Yours faithfully,

London N2. A. J. H. MORRELL.

How Many Invoices?

SIR, – During the course of the last few years we, no doubt like many other companies, have received more and more requests from customers to render invoices either in duplicate or triplicate and to date we have endeavoured to comply with these requests.

Prior to the recent installation of a computer it was decided that for certain of our sales divisions a four-part invoice would be necessary and for the other divisions a five-part invoice, which meant that spare copies would not be available for customers requiring additional copies of invoices and it would therefore be necessary for us to send photostat copies of the original.

We accordingly took the step of informing our customers who required invoices in either duplicate or triplicate that in order to achieve a saving in paper and time costs only one copy of our invoices would be sent to them.

The following is a sample of reactions from customers:

(1) Unless invoices were rendered in duplicate we could not expect to be paid for goods supplied.

(2) Unless invoices were rendered in duplicate there

would be either a considerable or some delay in payment of our accounts.

(3) It was unfair to transfer the cost of producing additional invoice copies on to the company receiving the invoices.

(4) Owing to change in the customer's system duplicate invoices were no longer required, but suppliers had not been notified.

In this day and age when the need to increase efficiency and reduce costs was never more apparent, my opinion is that the above reactions are a sad reflection of the thinking within certain sections of British industry.

I feel that it would be most interesting to have the views of your readers on this matter.

Yours faithfully,
FOR SPEAR & JACKSON LTD
B. H. JACKSON.
Secretary.

Sheffield.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS BUTTERELL & RIDGWAY, Chartered Accountants, of Hull, announce that Miss PHYLLIS E. M. RIDGWAY, B.A., F.C.A., has retired as a full-time partner. She continues to be associated with the firm as a consultant.

MESSRS WHINNEY MURRAY & Co announce that they have opened an office at 30 Boulevard du Régent, Brussels 1, with Mr S. C. HYSLOP, F.C.A., as resident partner.

MESSRS WHINNEY MURRAY & Co announce that they have opened an office at Via Sardegna 40, Rome, with Mr A. G. Ritchie, C.A., as resident representative.

Appointments

Mr John N. Ferguson, M.A., B.COMM., C.A., F.C.W.A., financial controller of BSR Ltd, has been appointed to the board of the company.

Mr J. W. Llewellyn-Jones, F.C.A., has been appointed executive vice-chairman of the Cruickshank division of Forestal Industries (U.K.) Ltd.

Mr J. W. Mather, C.A., has been appointed group chief accountant of Babcock & Wilcox Ltd.

Mr W. J. Parker, F.C.A., F.C.W.A., M.I.D.M., has been appointed controller of Addressograph-Multigraph Ltd.

Mr Raymond Schomberg, A.C.A., has been appointed a director of Jessel Securities Ltd.

Mr R. S. Waldron, F.C.A., F.A.C.C.A., has been appointed a director and deputy chairman of W. Pearce & Co (Northampton) Ltd.

NEW TOWNS COMMISSION

Mr Eric Overstall, B.COM., F.C.A., F.I.M.T.A., has been appointed chief finance officer of the Commission for the New Towns with effect from March 1st, next, in succession to Mr E. E. H. Cage, F.C.A., F.I.M.T.A., D.P.A., who is taking up the post of general manager of the Craigavon Development Commission in Northern Ireland.

Mr Overstall has been deputy chief finance officer since May 1962 and before that was chief finance officer of the Hemel Hempstead Development Corporation for over thirteen years.

MANCHESTER CHAMBER OF COMMERCE

Mr H. B. Vanstone, J.P., F.C.A., has been elected Vice-President of the Manchester Chamber of Commerce for 1966.

A partner in the firm of Thornton Baker & Co, Chartered Accountants, Mr Vanstone is a former chairman of the Chamber's Commercial Law Committee and has been a member of the executive committee since 1961. He is also a member of the Taxation Committee of the Association of British Chambers of Commerce.

EXPORTERS GUIDE

A revised edition of its comprehensive guide, *What to Read on Exporting*, has been published by The Library Association. The guide extends to some seventy pages and describes nearly four hundred books, pamphlets, directories and reference books on all aspects of exporting. First issued sixteen months ago, the new version includes details of the considerable amount of additional literature published since then.

In a foreword, Sir William McFadzean, chairman of the British National Export Council, says: 'The use made of the first edition indicates that this publication fills a badly-felt need and is playing an important part in our export efforts, particularly to companies not yet well established in overseas markets or even going for the first time into the export field'.

The guide is available, price 14s, from The Library Association, 7 Ridgmount Street, Store Street, London WC1.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Advanced E.D.P. Conference

This week-end is the last opportunity when application may be made to attend the Institute's Advanced E.D.P. Conference at Trinity College, Cambridge, from March 15th to 19th.

The closing date, originally February 5th, was extended to February 19th. The inclusive conference fee is £65 and registration is open to non-members as well as members of the Institute who have considerable experience of the application or operation of computer systems. Those wishing to apply should write to The Secretary, The Institute of Chartered Accountants in England and Wales, 56–66 Goswell Road, London EC1.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

President's Dinner

The President of The Institute of Chartered Accountants in Ireland, Dr Howard W. Robinson, gave a dinner party on February 7th, at Jammets Restaurant, Dublin. The guests were: Mr J. P. Beddy, chairman, The Industrial Credit Co Ltd; Mr E. C. Bewley, chairman, W. & R. Jacob & Co Ltd; Mr P. Bourke, director, Provincial Bank of Ireland Ltd; Mr F. Lemass, general manager, Coras Iompair Eire-

ann; Mr J. C. B. McCarthy, Secretary of the Department of Industry and Commerce; Mr M. Moynihan, chairman of the Central Bank of Ireland; Mr T. K. Whitaker, Secretary of the Department of Finance.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

President's Luncheon

The President of The Institute of Cost and Works Accountants, Mr H. Hodgson, F.C.A., F.C.W.A., gave a luncheon party on February 16th, at 63 Portland Place, London W1. Those present were: Sir Leon Bagrit, chairman and managing director, Elliott-Automation Ltd; Mr M. A. L. Banks, President, The British Computer Society; The Rt Hon. Viscount Caldecote, D.S.C., President, The Society of British Aerospace Companies Ltd; Capt. A. R. Glen, C.B.E., D.S.C., R.N.R.(Rtd), Chairman, Export Council for Europe; Mr A. W. Howitt, M.A., F.C.A., F.C.W.A.; Mr I. T. Morrow, C.A., F.C.W.A.; Mr K. J. Pendray, A.C.W.A.; Mr C. E. Sutton, F.C.A., F.C.W.A., and Mr M. H. Walters, C.B.E., Secretary of the Institute.

CERTIFIED ACCOUNTANTS' COURSES

Members' Week-end School

A week-end school for members of The Association of Certified and Corporate Accountants is to be held at St John's College, Cambridge, from 4.15 p.m. on Friday, April 1st, to lunch-time on Sunday, April 3rd. Four papers will be given on the theme of 'New management techniques'.

The cost to members of attending the school will be 10 guineas. Further details and enrolment forms can be obtained from the Technical Officer, at the offices of the Association, 22 Bedford Square, London WC1.

Students' Week-end School

A residential school for registered students of the Association will be held at New College, Oxford, from after lunch on Thursday, March 24th, to Sunday, March 27th. The technical programme will be under the direction of Mr D. R. Dawes, A.A.C.C.A., with experienced lecturers from technical colleges, public practice and industry.

Five lecture sessions, together with student participation sessions, will cover all sections of the Association's examinations. (Students attending full-time courses of instruction are not eligible to attend this school.)

The cost of the course will be 10 guineas, including full board and accommodation. Further details and enrolment forms may be obtained from the Technical Officer, 22 Bedford Square, London WC1.

SOUTHERN SOCIETY OF CHARTERED ACCOUNTANTS

Taxation Conference

A two-day residential tax conference was held by the Southern Society of Chartered Accountants on January 28th and 29th at the Sandbanks Hotel, Poole, Dorset. There was an attendance of 170 members of the Society.

The conference took the form of lectures and discussion groups along the lines of an Institute Summer Course in miniature, with each of the speakers having an opportunity of visiting the discussion groups in turn.

On the first morning Mr K. S. Carmichael, F.C.A., spoke on 'Distributions, short-falls and surtax directions', and in the afternoon Mr N. E. Mustoe, Q.C., gave a lecture entitled 'The 1965 Finance Act and the close company'. In the evening, Professor G. S. A. Wheatcroft, M.A.(OXON.), J.P., F.T.I.I., F.B.I.M., addressed members on 'Capital gains tax with regard to the problems of goodwill, trusts and estates'; and afterwards the majority of the discussion groups worked on until midnight.

On the second morning Mr D. Napper, F.C.A., of the Industrial and Commercial Finance Corporation, spoke on 'The treatment of taxation in company accounts of the future', in which members were encouraged to discuss the Institute's notes issued in December last. Immediately before lunch Mr John E. Talbot, F.C.A., lectured on 'Private investment companies – their future or their liquidation', and the afternoon session was almost entirely taken up with a practical demonstration by Mr E. C. Meade, F.C.A., on a problem relating to capital gains tax and quoted investments. The two-day session closed with an 'Any Questions' panel prior to dinner.

The discussion group leaders were Mr A. S. Watson, F.C.A., of Southampton, Mr R. D. Pearce, F.C.A., of Portsmouth, Mr A. W. Miles, F.C.A., of Bournemouth, Mr D. G. Gordon, J.P., F.C.A., of Bournemouth, Mr D. J. O. Crosthwaite, F.C.A., of Dorchester, Mr D. J. Gulliford, F.C.A., of Portsmouth, Mr J. English, F.C.A., of Bournemouth, and Mr C. H. B. Gilroy, F.C.A., of Aldershot.

Evening Echo, Bournemouth

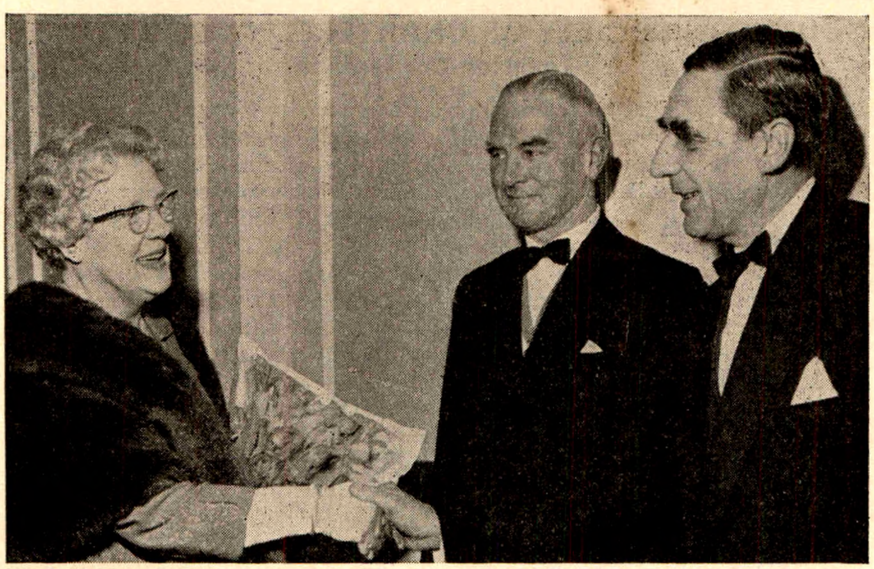
Mr John H. Mitchener, F.C.A., President of the Southern Society of Chartered Accountants, speaking at the Society's recent residential Tax Conference referred to in the note above. Seated to the left of Mr Mitchener are Mr D. G. Gordon, J.P., F.C.A., Vice-President of the Society, Mr D. Napper, F.C.A., of the Industrial and Commercial Finance Corporation, Mr John E. Talbot, F.C.A., and Professor G. S. A. Wheatcroft.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

MONDAY

The Chess Club will meet at 6 p.m., in the Students' Society Common Room. All members are welcome to a game.



Mr G. E. Tickner, F.C.A., Chairman of the Worthing and District Group of the South Eastern Society of Chartered Accountants (*right*) welcomes the Mayor of Worthing, Councillor Mrs H. M. Peryer, to the Group's recent annual dinner held at Warnes Hotel, Worthing; in the centre is Mr W. H. Minter, F.C.A., President of the South Eastern Society of Chartered Accountants. Also present at the dinner were Mr Robert McNeil, F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mr Herbert Keeling, F.I.M.T.A., President of The Institute of Municipal Treasurers and Accountants

WEDNESDAY

Debate in the Students' Society Common Room at 43 London Wall, when the motion will be, 'That the United Nations Organization no longer fulfils its real purpose'.

A party of members of the Southend-on-Sea Branch will pay a whole-day visit to the Mint; the Stock Exchange; a branch of I.B.M., and the Students' Society Library.

THURSDAY

Professor H. C. Edey, B.COM., F.C.A., Professor of Accounting at the London School of Economics, will speak on 'Finance and the company law' at 5.45 p.m. at The Little Ship Club, Bell Wharf Lane, Upper Thames Street, London EC4.

Mr J. O. Elphick, F.C.A., will talk on 'How to examine critically a published balance sheet and profit and loss account' to members of the Reading Branch at The White Hart, High Wycombe, at 7.15 p.m.

The Institute of Chartered Accountants in Ireland

Successful Candidates at Winter 1965 Examinations

The candidates' names are followed by those of the principals with whom they served articles of clerkship.

PART I

Andrews, J. C., Dublin (L. J. Mooney)
Andrews, V. I. J., Dublin (R. G. Walsh)

Barry, P. J., Longford (J. Kilemade)
Bates, P. B., Ardglass, Co. Down (J. Graham)
Bleakley, J. C., Belfast (S. Boyle)
Bolger, M. A., Waterford (A. F. Kelly)

Cagney, R. P. G., Dublin (N. J. O'Conor)
Cahill, E. P. St. J., Cork (J. D. O'Leary)
Campbell, J., Belfast (C. H. Adams)
Clooney, C. M., Waterford (D. C. Ferguson)
Collins, A. G., Belfast (J. Bacon)
Collins, J. B., Dublin (J. A. Dempsey)
Cooney, J. O., Drogheda, Co. Louth (W. G. Armstrong)
Corbet, C. A. J., Dublin (D. Barnett)
Corkery, A. M., Longford (J. H. Kilemade)
Corry, R. P., Dublin (R. Finlay-Mulligan)
Costello, A. V., Dublin (G. Wheeler)
Costigan, W. D. A., Waterford (D. C. Ferguson)
Curran, J. P., Lisburn Co. Antrim (D. H. Montgomery)

Dalzell, W. B., Belfast (J. F. Crawford)
Donoghoe, W. D., Dublin (N. J. O'Conor)
Donoghue, D. O., Dublin (First Place) (G. Finlay-Mulligan)
Doyle, J. A. A., Dublin (J. C. Story)
Drumm, D. P. K., Dublin (J. Malone)

Givens, J. J., Dublin (D. Beirne)

Halligan, R. J., Belfast (N. Stewart)
Hore, P. J., Dublin (M. Casey)
Humphreys, R. H. M., Belfast (V. J. C. Bleakely)

Kelleher, J. C., Limerick (W. H. O'Donnell)
Kernaghan, P. J., Belfast (J. P. Convery)
Kilduff, P. J., Dublin (N. L. Fox)

Leow, W. K., Belfast (G. B. Duffin)
Longmore, P. G., Dublin (J. Charleton)

McBride, J. P., Omagh, Co. Tyrone (T. O'Reilly)
McClintock, W. H., Bangor, Co. Down (W. C. Balmer)
McCormack, E. F., Dublin (A. M. Grant)
McDonald, E. M. A., Dublin (D. P. Whelan)
McGovern, G. T., Dublin (R. Dempsey)
McGowan, A. J. K., Dublin (J. J. Murphy)
McLoughlin, F. P., Oranmore, Co. Galway (E. L. Hynes)
Macnaughton, P. A., Dublin (T. M. Linnane)
Magill, G. S., Belfast (G. B. Duffin)
Mahon, M. A., Dublin (D. C. Power)
Meade, J. M. D., Dublin (D. P. Whelan)
Moor, M. P., Dublin (Second Place equal) (J. A. Milliken)
Mullen, S. M. N., Dublin (E. Downs)

Murphy, D. J., Cork (P. O. Martin)
Murphy, J. W., Dublin (D. McC. Watson)

Nolan, V. J., Dublin (Second Place equal) (M. N. Sheehan)

O'Donovan, K., Dublin (A. J. R. Cullinan)
O'Donovan, W. F., Cork (M. F. Quillinan)
O'Dowd, B. G., Dublin (D. J. Fay)
O'Kelly, S. G., Dublin (J. P. Coyle)
O'Regan, J. W., Dublin (N. Brophy)
O'Shea, M. O., Cork (T. J. Clifford)

Patterson, R., Belfast (D. Gibson)

Ramkumar, K. P., Belfast (J. A. Petticrew)
Roche, P. F., Cork (P. O. Martin)
Ryan, J., Dublin (P. N. Rennick)

Sadlier, T. F., Dublin (J. K. Woods)
Shaw, J. D., Belfast (J. S. Graham)
Sheane, R. S. D., Belfast (D. L. Magowan)
Sproule, E. H., Belfast (S. H. Boyle)
Steeples, L. P., Dundalk, Co. Louth (M. Flynn)
Stewart, P. J. B., Belfast (R. E. McClure)

Tierney, F. T., Dublin (T. P. Downs)

Wilkinson, G. W., Belfast (N. Stewart)
Wiseman, G. A., Lisburn, Co. Antrim (K. E. D. Mackrell)

33 candidates failed to satisfy the examiners

PART II

Adamson, R. S., Newtownabbey, Co. Antrim (J. Graham)
Allen, M. D., Dublin (J. A. Joy)

Barrett, V. F. J., Dublin (E. J. Hayes)
Bolger, A. N., Dublin (P. H. Grant)
Bradley, J. L., Dublin (C. V. Crowley)
Burke, O. N., Dublin (G. Buttanshaw)

Callanan, J. H. M., Dublin (R. G. Walsh)
Casey, J. D., Dublin (I. W. O'Neill)
Clibborn, E. G. B., Cork (J. A. O'Conor)
Conry, M. V., Dublin (N. Fox)
Corcoran, T. A., Enniskerry, Co. Wicklow (D. P. Whelan)
Crawford, W. J. E., Ballymena, Co. Antrim (E. H. McAfee)
Cusack, T. J., Dunmore East, Co. Waterford (M. E. Downey)

Deasy, W. P. N., Dublin (N. V. O'Neill)
Donnelly, J. A., Maynooth, Co. Kildare (K. M. McQuillan)
Doyle, B. J., Wexford (D. C. Ferguson)
Duffy, M. J., Belfast (J. D. Radcliffe)
Dunlevy, R. A., Dublin (K. M. McQuillan)

Earley, A. C., Dublin (C. W. Chambers)
Egan, J. R., Dublin (C. F. Smith)
Essame, A. N., Waterford (F. N. Kelly)

Ferriss, M. D., Dublin (P. J. Byrne)
Fetherston, J. C., Belfast (E. W. C. W. Bailey)
Flynn, P. A., Belfast (Second Place) (G. D. Bustard)
Forsythe, E., Whitehead, Co. Antrim (M. W. Heenan)

Gallagher, M. P., Dublin (D. L. Shortall)
Good, B. A., Waterford (J. K. Deevy)
Grace, M., Dublin (W. J. O'Neill)

Hudson, M. J., Belfast (J. A. Winnington)

Johnston, J. M., Dublin (A. W. Warnock)

Keenan, C. F., Dublin (N. E. Fox)
Kelly, M. D., Dublin (M. Casey)
Kinahan, J. A., Dublin (James Fitzharris)

Lee, G. J., Belfast (F. C. Shaw)
Linehan, P. C., Dublin (M. Casey)
Little, N. E., Belfast (D. M. Foster)
Lynch, E. P., Galway (E. L. Hynes)
Lynn, B. N., Belfast (T. F. E. Donnelly)
Lynott, P. J., Dublin (E. L. Connolly)
Lyons, G. D. M., Dublin (D. L. Shortall)

MacAodha, E. P. S., Dublin (First Place) (E. L. Connolly)
MacAuley, J., Ballymena, Co. Antrim (F. McKeown)
MacCarthy, C. P. F., Cork (Third Place) (A. J. K. Thornton)
McClintock, M. J. P., Limerick (S. Lilburn)
McCormack, J. J., Kilcock, Co. Kildare (N. L. Fox)
McCormick, J. P., Belfast (G. T. Henderson)
McElhinney, J. G., Dublin (M. F. Duggan)
MacEvilly, M. J., Dublin (A. O'Beollain)
McFeely, F. J., Dublin (O. M. Freaney)
McInerney, J. P., Dublin (C. J. Dalton)
McKenna, M. P., Dublin (A. O'Beollain)
Mara, J. E., Dublin (J. Malone)

Martin, M. E. P. (Miss), Tramore, Co. Waterford (J. K. Deevy)
Maxwell, T. A. M., Londford (J. Kilemade)
Mullane, J. J., Waterford (C. N. Baker)
Mullock, C. D., Dublin (C. J. Dalton)
Murphy, E. P., Dublin (A. J. Stewart)

Nathan, V. F., Cork (J. Kirby)
Nesbitt, F. L., Belfast (R. E. McClure)
Nolan, W. F., Dublin (A. J. R. Cullinan)

O'Brien, D. S., Tramore, Co. Waterford (E. Halley)
O'Brien, M. G., Dublin (A. K. Burns)
O'Connor, P. V., Limerick (G. N. Power)
O'Donnell, T. G., London (S. Lilburn)
O'Malley, J. F., Limerick (M. K. Wallace)
O'Reilly, P. D., Limerick (W. H. O'Donnell)
O'Riordan, J. A. A., Limerick (T. A. Duffy)
O'Rourke, T. G., Dublin (R. I. Newport)

Peterson, A. C., Dublin (R. J. Morrison)

Quinn, G. W., Tuam, Co. Galway (P. M. O'Beirne)

Riordan, D. B., Dublin (F. Smithwick)

Sheehan, S. P. J., Dublin (A. J. G. White)
Sheppard, W. J., Dublin (T. P. Phelan)
Silver, M. A., London (T. Kenny)
Smith, P. V., Dublin (J. L. Kealy)
Solon, G. M., Dublin (P. O. Fagan)

Tolland, J. A. L., Belfast (G. E. Cameron)

Wallace, R. M., Dublin (R. I. Morrison)
Walsh, M. A., Dublin (J. A. Joy)

54 candidates failed to satisfy the examiners.

PART III

Anderson, H. F., Belfast (H. E. A. Addy)

Balding, O., Dublin (R. G. Walsh)
Baylor, R. T., Cork (H. J. Daly)
Begg, D. G., Waterford (A. F. Kelly)
Bourke, T. P. M., Limerick (Third Place) (E. J. Hopkins)
Brown, A. B., Belfast (H. V. Kirk)
Bryan, N. J., Dublin (J. C. Magowan)
Burnside, R. J. G., Belfast (W. M. Carson)
Byrne, F. A., Dublin (T. W. Davies)
Byrne, M. E., Dublin (M. W. Murphy)

Campbell, C., Newtownabbey, Co. Antrim (J. A. Glenn)
Clarke, J. P., Dublin (B. C. Duffy)
Colhoun, W., Londonderry (H. McCay)
Colvin, G. R., Belfast (C. H. Adams)
Connolly, P. J., Bray, Co. Wicklow (K. Briscoe)
Cooke, N. S., Dublin (A. J. Spain)
Cousins, J. M., Dublin (P. Griffin)

Daly, N. F., Dublin (J. Donnelly)
Daly, R. D. A., Dublin (M. J. Ryan)
De Souza, B. V. F., Belfast (J. R. Graham)
Dolan, J. V. A., Dublin (J. C. Story)
Doris, D. J., Dublin (N. V. O'Neill)
Duggan, N., Dublin (V. C. Crowley)
Durneen, N. I. J., Belfast (J. E. Nelson)

Evans, J. W., Delgany, Co. Wicklow (C. D. Shannon)

Everard, P. M., Castlebellingham, Co. Louth (G. W. O'Brien)

Farrell, R. R., Dublin (G. W. O'Brien)
Ferguson, T. B., Belfast (G. D. Bustard)
Forsyth, J. C., Dublin (H. H. Forsyth)

Gallagher, H. A., Dublin (R. A. Dempsey)
Gilmore, J. J., Belfast (J. A. Petticrew)
Glennane, D. E., Dublin (C. J. Gilgunn)
Gordon, R. B., Belfast (G. E. Cameron)
Gorman, W. J., Dublin (R. S. Baskin)
Grace, M., Dublin (W. J. O'Neill)
Gray, R. H., Belfast (D. O'Donnell)

Haddon, J. G., Dublin (J. M. Russell)
Hanly, H. A., Dublin (J. Charleton)
Hurley, J. G., Rossbrien, Co. Limerick (P. J. McGuigan)
Hussey, J. D., Dublin (H. H. Forsyth)

Jackson, W. E., Belfast (J. D. Jordan)
Jennings, B. O., Dublin (S. H. Polden)

Kane, J. R., Dublin (J. Malone)
Keating, D. V., Dublin (J. J. Bastow)
Kelly, A. P., Dublin (T. McDonnelll)
Kelly, J. S. E., Dublin (M. Conlon)
Kelly, V. P., Dublin (M. S. Lynn)
Kenny, J. B., Cork (H. C. Hitchmough)

Lane, C., Dublin (W. P. Rhatigan)

Lauder, C. D., Larne, Co. Antrim (E. McMurtry)
Leech, T., Dublin (S. A. Cloonan)
Lillis, J. R., Galway (First Prize) (P. M. O'Brien)
Lynch, J. H., Dublin (N. V. Hogan)
Lyons, C. W., Belfast (J. J. Morrow)

McBride, I. M., Omagh, Co. Tyrone (M. G. Brown)
McCann, P. C., Belfast (D. O'Donnell)
McCartan, J. A., Banbridge, Co. Down (H. Murray)
McCartney, R. J., Belfast
McDermott, L. M., Cork (T. J. Clifford)
McDonald, B. M., Dublin (L. J. Mooney)
McDonald, D. C., Belfast (J. S. Graham)
McDowell, D. P. O., Dublin (J. Woods)
McElholm, T. B. F., Omagh, Co. Tyrone (T. O'Reilly)
McHugh, B. D., Limerick (W. H. O'Donnell)
McMillan, W. R. D., Bangor, Co. Down (F. Cleland)
McMullan, D. M., Craigavad, Co. Down (C. H. Adams)
Magee, R. J., Belfast (W. M. Carson)
Magourty, H. B., Wexford (T. W. Davies)
Mason, S. T., Dublin (G. H. Beatty)
Maze, M. F., Belfast (J. E. Crawford)
Meharry, G., Belfast (J. Dornan)
Moore, J. G., Mullingar, Co. Westmeath (R. G. Walsh)

Moss, R. A., Dublin (H. W. Lewis)
Murphy, B. F. M., Dublin (C. F. Smith)
Murphy, J. J. R., Dublin (N. J. O'Conor)

Naismith, W. P., Dublin (W. G. Armstrong)
Norton, M. A., Dublin (V. C. Crowley)

O'Brien, P. J., Cork (J. D. O'Leary)
O'Brien, T. F., Waterford (A. F. Kelly)

O'Carroll, N. D. W., Dublin (Second Place) (A. J. Stewart)
O'Flynn, J., Cork (P. O. Martin)
O'Mahony, P. V., Cork (J. Kirby)

Prior, P. B., Longford (J. Kilemade)

Rea, D. E. H., Belfast (R. H. A. Boyd)
Rowan, P. F., Larne, Co. Antrim (J. Zachery)
Ryan, K. E., Dublin (G. Finlay-Mulligan)

Scott, W. G., Dublin (W. C. Peterson)
Spence, L. H., Armagh (W. R. Peattie)
Sproule, I. T. B., Portadown, Co. Armagh (W. R. Knox)

Tynan, K. C., Dundalk, Co. Louth

Uniacke, B. D., Cork (W. Northridge)

Walker, R. G., London (G. Golding)

68 candidates failed to satisfy the examiners.

PART IV

Braiden, E. D., Dublin (J. J. Murphy)
Butler, S. J. O'B., Dublin (J. P. Buckley)
Byrne, E. A., Dublin (J. G. Charleton)
Byrne, P. A., Dublin (F. Hamilton)

Caffrey, P. S., Dublin (M. F. Quinn)
Chambers, W. D., Belfast (C. H. Adams)
Cooper, W. S. J., Belfast (S. L. Little)
Cope, S. D., Castledermot, Co. Kildare (A. E. Dawson)
Corcoran, C. A., Bray, Co. Wicklow (J. C. Oakes)
Craig, D. G., Dublin (G. Buttanshaw)
Crowe, A. R., Belfast (J. Zachary)

Doorly, T. J., Dublin (J. C. Story)
Dungan, A. K., Dublin (W. J. McMahon)

Egan, J. F. J., Castleknock, Co. Dublin (S. J. Muldowney)
Ekin, T. A., Belfast (F. Cleland)

Ferguson, A. J., Belfast (J. E. Crawford)
Finegan, J. J., S. (Navan P. Muldoon)
Fitzgerald, R. J., Dublin (J. Love)

Gerrard, J. F., Drogheda, Co. Louth (J. A. Barton)

Holland, W. M., Cork (First Place) (R. P. J. Olden)
Horkan, J. D., Dublin (N. V. Hogan)

Johnston, G. M., Belfast (A. Lovesy)

Kos, B. A., Dublin (W. C. Oakes)

Lawless, P. J. M., Dublin (J. C. Magowen)
Lawler, P. A., Dublin (T. McDonnell)
Ledwidge, F., Holywood, Co. Down (A. L. Boyd)
Leeson, N. H., Dublin (J. M. H. Russell)

McBriar, E. F., Comber, Co. Down (Second Place) (M. H. J. Best)
McClure, A. G., Bangor, Co. Down (C. H. Adams)
McCormick, R., Belfast (E. W. McDowell)
McQuoid, I. S., Belfast (J. H. R. Adams)
Mahon, J. L., Dublin (J. Malone)
Milne, P. J., Dublin (S. O. Forster)
Moore, P. J., Dublin (J. C. Oakes)
Morgan, R. A., Dublin (M. Tempany)
Morrissey, T. N., Waterford (C. N. Baker)

Nash, T. V., Cork (Third Place), (R. P. F. Olden)

Naughton, T. I., Dublin (N. M. MacMahon)

O'Carroll, J. M., Dublin (P. O. Fagan)
O'Higgins, T. J., Limerick (L. G. Chance)
O'Leary, N. G., Limerick (G. N. Power)
O'Neill, E. A., Dublin (O. M. Freaney)
Owens, C. A., Mullingar, Co. Westmeath

Pope, A. K., Dublin (J. R. Morton)
Powell, R. A., Dublin (J. A. Strickland)
Purtill, P. J., Dublin (J. Mullarney)

Quigley, D. F., Dublin (S. O. Forster)
Quinn, L. G., Dublin (J. C. Story)
Quinn, P., Belfast (B. A. Courtney)

Ross, R. T. J., Belfast (J. S. Graham)

Said, B. H. A., Dublin (R. L. Bell)
Sheridan, H. P., Dublin (W. Sandys)
Spellman, M. G., Dublin (R. A. Brophy)

Thompson, J. H. (Miss), Belfast (J. Bacon)
Twamley, W. P., Dublin (M. Tempany)

Vaughan, F. M., Dublin (S. H. Polden)

Walsh, T. K., Dublin (J. R. Morton)
Wine, D., Dublin (D. L. Shortall)

100 candidates failed to satisfy the examiners.

PART V

Allan, S., Belfast (A. M. Gamble)

Ball, R. G. M., Dublin (W. S. Cunningham)
Balmer, R. C. G., Dublin (R. S. Baskin)
Beare, P. G., Dublin (M. Sheehan)
Brown, J. P., Dublin (E. P. Grace)

Carty, P. P., Dublin (D. Barnett)
Casey, J. F., Cork (A. J. K. Thornton)
Chambers, D. J., Limerick (S. Lilburn)
Coyle, D. C., Dublin (J. P. G. Coyle)

Dodd, C. J., Bray, Co. Wicklow (J. Love)
Dolan, J. F., Dublin (J. C. Story)
Duggan, D. P., Dublin (A. J. Spain)

Eason, D. R. S., Dublin (G. Buttanshaw)

Fitzsimons, J. G., Newry, Co. Down (W. B. Prescott)
Flynn, D. J. P., Dublin (L. G. Devereux)
Fogarty, D. P., Dublin (T. Butler)

Galloway, K. J., Dublin (S. H. Polden)

Griffith, P. G., Dublin (G. W. O'Brien)

Haugh, M. J., Dublin (J. Donnelly)
Henry, W. H., Ballymena, Co. Antrim (K. E. D. Mackrell)
Heslin, V. A., Dublin (D. Barnett)
Hewat, J. R. B., Dublin (G. F. Klinger)
Higgins, W. D., Dundalk, Co. Louth (W. G. Armstrong)
Hoey, M. J., Dublin (Third Place equal) (R. I. George)

Iwwe, I. U. A., Dublin (S. A. Cloonan)
Irwin, D. A., Belfast (A. S. Boyd)

Kavanagh, J. P. M., Dublin (S. P. McHugh)
Kevans, P. A., Limerick (First Place) (T. A. Duffy)

McConnell, R. C., Belfast (D. M. Foster)
McManus, B., Dublin (W. J. O'Neill)
Martin, J. A., Dublin (N. C. Stewart)
Mercer, G. S., Bangor, Co. Down (M. W. Heanen)

Murphy, P. J., Dublin (Second Place) (N. V. Hogan)

O'Callaghan, E. C. G., Dublin (W. P. Rhatigen)
O'Donnell, M. N., Dublin (W. J. O'Neill)
O'Duffy, S. P., Dublin (T. R. Beddy)

Park, G. S. J., Dublin (T. P. Downs)
Power, W. P., Tramore, Co. Waterford (D. C. Ferguson)

Rose, M. B., Belfast (Third Place equal) (S. L. Little)
Ruane, C. P., Dublin (W. C. Peterson)

Sexton, J. B., Limerick (P. O. Coffey)
Shortall, P. F., London (D. L. Shortall)

Taylor, J. F., Bangor, Co. Down (J. A. Walker)
Teer, J. Belfast (J. Baird)

Wilson, W. G., Belfast (W. Brown)
Wright, T. J., Dublin (J. L. Kealy)

85 candidates failed to satisfy the examiners.

THE ACCOUNTANT

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ON OTHER PAGES

Timely Tactics

THE chief components of a practising accountant's stock-in-trade are skill and time. The first of these is kept up to date by constant usage and by the grafting thereto of improved techniques as they are developed. The second, time, has to be expended as economically as possible; partly because there never seems to be enough for the work on hand, and partly because it is principally on a time basis that professional fees are calculated. Although recording time, individually or collectively, is regarded by some as no more than an irksome office routine, the degree of accuracy with which this is done may help to make or mar a practice. There are few matters on which clients are more sensitive than the time spent on their audits, and rightly so because time, as well as being a contributory factor to the size of the fee, is also a dimension of efficiency.

It is with this theme that the eighth of the Practice Administration booklets, currently being issued by The Institute of Chartered Accountants in England and Wales, is concerned.[1] Its author, Mr V. F. BERRY, F.C.A., believes that profitability in most professional practices is dependent on three conditions being fulfilled – that the manpower resources available are used as effectively as possible; that the predetermined charging rates when applied to time incurred are, in fact, billed and recovered; and that the assumptions made in calculating these charging rates are adhered to in actual operations. In short, that everything goes according to plan. So as to ensure this, Mr BERRY advocates the setting up of an operating budget giving, on the one side, the total expected billings (aggregate chargeable man-hours multiplied by the appropriate charging rates) and, on the other, totals of direct salaries and fringe costs, contributions to overheads and anticipated profit. Regular comparison of these standards with the records of time logged and money spent and with billings should enable variations to be ironed out and profit trends identified.

Mr BERRY makes clear the relationship between the raw material time and the end-product money and the need to control the first in order to have command of the second, but he does not dogmatize on how to hold the reins, realizing that needs and resources differ from firm to firm. There must be few practising accountants, however, who would not learn something new from his philosophical text and tabular examples.

[1] *Controls for the Effective Use of Time and the Keeping of Time Records.* Obtainable from The Institute of Chartered Accountants in England and Wales 56/66 Goswell Road, London EC1. Price 5s post free.

Census Figures: a Tool of Management

A FEW years ago, Mr F. SEWELL BRAY, F.C.A., suggested four main operating ratios, together with possible variants, as worthy of attention by business executives and, in particular, management accountants. The ratios are:

(1) goods and outside services consumed, and gross output;
(2) operative and ancillary labour, and net output;
(3) the variable margin, and gross and net outputs;
(4) operating overheads and net output.

By the variable margin, Mr SEWELL BRAY meant the difference between net output and the total of wages, salaries and social insurance charges, and no doubt he had in mind the calculation of a series of such ratios as changes in them over a period of time might well point to increased or decreased efficiency. Where possible, a comparison of the ratios for one firm with the average for the industry to which the firm belongs, can prove equally enlightening as the surveys conducted by the Centre for Interfirm Comparison have shown.

Some of these ratios for industries can be computed from the results of the periodic censuses of production. The last full census was taken in 1964, in respect of the year 1963, and the preliminary results were published at the end of last December. Columns headed sales (under two headings), net output, average numbers employed (in two categories), wages and salaries paid to operatives and others, and employers' contributions to National Insurance and private pension schemes, etc., were shown complete, with figures for practically every industry as distinguished in the Standard Industrial Classification. These headings can be related to the above-mentioned ratios in the following way:

(1) by and large, the division of sales marked goods produced and work done represents gross output, and the difference between gross output and net output is largely goods and outside services consumed;
(2) wages paid to operatives, and total wages and salaries paid, can be equated to operative and ancillary labour. Net output is specifically quoted in the census figures;
(3) the variable margin is obtained by deducting wages and salaries together with National Insurance contributions etc. from net output;
(4) operating overheads are not distinguishable in the census of production figures.

Mr SEWELL BRAY's ratios can be supplemented from the census results with other useful ratios such as net output per person employed and average wages paid to operatives and average wages and salaries paid to other employees. As the census table published by the Board of Trade gives figures for 1954, 1958 and 1963, it provides a basis for comparison over a decade. For industry/firm comparisons, the firm in question should refer to the copies of the census forms completed by them. Assuming the firm making the comparison belongs, shall we say, to the machine tools and engineers' small tools industry, the following figures can be derived from the Board of Trade census table:

	1954 £	1958 £	1964 £
Net output per person employed	897	1,039	1,337
Average wages of operatives	480	604	749
Average salaries of other employees	634	783	938

Using the copies of the census return supplied to the Board of Trade the firm can find out whether its net output per person is higher or lower than average, whether the growth in net output per person is faster or slower than average, whether it pays higher or lower than average wages, and whether these payments are growing faster or slower than average.

The inquiring management accountant will no doubt wish to find the reasons for any differences between the performance of his firm and the average, particularly in the case of wide differences in the variable margin. Included in this variable margin will be, *inter alia*, the return on capital invested in the firm, and profits. A glance at the census of production table will show that the more capital intensive industries have a higher net output per employee than industries which are not so well endowed. The various branches of the chemical industry, and the oil refinery industry, particularly the latter, have a very high net output per person employed. These are industries with a high capital ratio per employee.

In a sense, a high net output is an indication of efficiency; the higher the net output, the greater the contribution made to the gross national product. However, there is no necessary connection between a high net output per person and profitability. The high net output may have been achieved only by the use of very large amounts of capital. But other things being equal (perhaps an unlikely situation), the higher the net output per person employed, the higher will be the profits.

Unlimited Companies

THE new Companies Bill, which had its second reading on Monday, provides, as we have said earlier, for the abolition of exempt status for private companies, and more stringent requirements as to disclosure in accounts. This is in accordance with the recommendations of the Jenkins Committee. But that Committee also made certain recommendations about unlimited companies.

At present unlimited companies are on the same level as limited companies as regards filing accounts; if they are exempt private companies they need not file accounts, but otherwise accounts must be filed. The Jenkins Committee saw no more reason for an unlimited company to file accounts, than for an individual trader or partnership, it recommended that all unlimited companies should be exempt from this requirement. The report said nothing of the rather special case of an unlimited company having, as its members, a number of limited companies. In such a situation the absence of limit on the first company's members' liability is somewhat illusory. Doubts have been expressed that there was any possibility of an unlimited company having limited companies as its members. Perhaps the Jenkins Committee assumed that such a thing could not happen. But apparently it can. If it does, then clearly it ought to file accounts, because for all practical purposes it is limited.

Clause 24 of the Bill provides that an unlimited company shall be exempted from the requirements imposed by section 127 of the 1948 Act (annexing accounts to the annual return) if all of the following conditions are satisfied:

(*a*) (i) at no time during the period to which the return relates has it been, to its knowledge, the subsidiary of a company that was then limited; and

(ii) at no such time, to its knowledge, have there been held or exercisable by or on behalf of two or more companies that were then limited, shares or powers which, had they been held or exercisable by one of them, would have made the company its subsidiary;

(*b*) at no such time has it been the holding company of a company that was then limited; and

(*c*) at no such time has it been carrying on business as the promoter of a trading stamp scheme within the meaning of the Trading Stamps Act, 1964.

This new requirement, combined with the abolition of the exempt private company, is certainly more tidy than the existing situation. Under the Bill there is a straight choice for a company: it must either disclose its accounts (with all the stringent new provisions), or abandon the privilege of limiting the liability of its members. However, only time will tell whether some astute people will be able to find loopholes even in clause 24.

The Jenkins Committee foresaw a decision by many companies, hitherto exempt private companies, to move into the unlimited liability zone rather than publish their accounts. It pointed out that although the 1948 Act permits an unlimited company to re-register as limited, it does not provide for any traffic going the other way. The Committee recommended that such a move should be possible, but added a rider that no company should take this drastic step without expert advice.

Clause 21 confers the necessary power on a limited company to re-register with unlimited liability. This power can hardly be exercised lightly for, in addition to the injunction by the Committee to take expert advice, clause 21 lays down a most elaborate procedure. Moreover it will be necessary to wait and see the prescribed form in which the application has to be made, and the prescribed form of assent by members. These will be laid down in due course by statutory instrument if the Bill becomes law.

Clause 21 (1) requires an application to the Registrar which:

(i) complies with the requirements of sub-clause (2),

(ii) is framed in the prescribed form;

(iii) is signed by a director or by the secretary; and

(iv) is accompanied by the documents mentioned in sub-clause (3).

The sub-clause (2) requirements deal with (*a*) the memorandum of association and (*b*) the articles. The application must set out such alterations in the memorandum as:

(i) if the company is to have a share capital, are requisite to bring the memorandum (both in substance and in form) into conformity with the requirements of the 1948 Act as to the memorandum of a newly incorporated unlimited company; or

(ii) if the company is not to have a share capital, are requisite in the circumstances.

The applicant company may or may not have registered articles. If there are registered articles, then the application must set out such alterations and additions as:

(i) if the company is to have a share capital, are requisite to bring the articles (both in substance and in form) into conformity with the requirements of the 1948 Act as regards a newly incorporated unlimited company registering articles; or

(ii) if the company is not to have a share capital, are requisite in the circumstances.

If the company does not already have registered articles, then the application must be accompanied by a print of articles, and contain a request that this print be registered as articles of the company. As in the case of original articles on first incorporation, the print must be stamped with the same stamp as a deed, i.e. 10*s*. If there is a share capital, this new print of articles must comply with the statutory requirements in the case of share capital. Otherwise it must be appropriate to the circumstances.

We come now to sub-clause (3) which sets out what documents have to be sent. They are:

(*a*) the prescribed form of assent to the company's being registered as unlimited, subscribed by (or on behalf of) *all* the members of the company;

(*b*) a statutory declaration made by the directors (i.e. all of them):

(i) that the persons by whom (or on whose behalf) the form of assent is subscribed constitute the whole membership of the company; and

(ii) if any members have not subscribed the assent form themselves, that the directors have taken all reasonable steps to satisfy themselves that each person who subscribed on behalf of a member was lawfully empowered to do so;

(*c*) a printed copy of the memorandum of association incorporating the alterations which are set out in the application; and

(*d*) (if articles have been registered) a printed copy incorporating the alterations and additions as set out in the application.

The provisions about the assent of members are obviously of immense importance to the members themselves who, of course, will become liable to the full extent of their individual estates for the company's debts. The directors have to make a statutory declaration which deals with subscription by persons on behalf of members. The directors need not declare that those persons have been lawfully authorized; they need only declare that they have taken all reasonable steps to satisfy themselves that this is so. What any particular board of directors consider 'reasonable' must be a very variable factor. Apparently no proof will be required that the person signing a member into unlimited liability really had the authority.

In the case of some members, the temptation to declare such authority on behalf of others might be very strong. A rich member would obviously represent a safeguard for the less well-endowed members. Then there is the familiar case of the solicitor's clerk who is asked to subscribe a memorandum of association, receives his one share, and then changes his employment and ultimately disappears. Such people are often difficult to trace. On the other hand, it would be quite wrong to saddle them with unlimited liability.

A member may have died, although remaining on the register. His personal representatives can sign the assent. This will 'be deemed to be a subscription by him'. 'Deeming' provisions are common enough, particularly in Finance Acts, but a provision which deems a dead man to do something which quite patently he cannot do, is something new. Happily, it is only for the purposes of clause 21. As to the bankrupt member, his trustee in bankruptcy is to be deemed to be the member for this purpose. There is something endearing about the idea of a trustee in bankruptcy signing his bankrupt into unlimited liability – surely the last thing a trustee in bankruptcy should ever be doing.

In certain circumstances a former member of a company may in any case be liable for its debts. This is where his shares were not fully paid up and he has only recently left the company before it went into liquidation. It would be unfair if a former member could have unlimited liability forced upon him, instead of the liability limited to the unpaid portion of the shares formerly held by him. Accordingly, clause 21 (6) provides that he shall not be required to pay more than he would have been liable for had the company not been re-registered as unlimited. However, if he becomes a member again before the company goes into liquidation, he will be fully liable.

The above provisions make it clear that most companies will need expert advice, not only on the advisability of becoming unlimited, but on the mechanics of the application. However, eventually the stage will be reached where the application satisfies the Registrar that it meets the clause 21 requirements. What must he do with that application and the other documents? He must retain them. If articles are annexed to the application he must register them (provided they are duly stamped), and he must issue to the company a certificate of incorporation appropriate to the new status. It is at this point, the issue of the certificate, that the change takes place. By virtue of the issue the company becomes an unlimited company.

Current Affairs

More Security for the Lessee

THE Government is to introduce a Bill under which long-leaseholders of dwelling-houses will have much greater security of tenure and also an opportunity to buy out the freeholder on what are called 'fair terms'. Details appeared in a White Paper published last week[1]. To qualify, the leaseholder must satisfy the following conditions:

(1) he holds a lease of a house, being a lease originally granted for more than twenty-one years;

(2) the lease must be at a 'ground-rent';

(3) the rateable value of the house does not exceed the Rent Act limits (£400 in London, £200 elsewhere);

(4) he occupies the whole or part of the house as his residence;

(5) he has occupied it as above continuously for five years (excluding any period during which he held at a rack-rent).

If he satisfies these highly arbitrary conditions he may take a once-for-all extension of fifty years, but at a 'modern' ground-rent, attributable to the site as distinct from the building. At the same time, he may at any time during the lease compulsorily buy out the freeholder, at a 'fair' price. The fair price is not (as the innocent might assume) the market price, but the value of the land, including development value but excluding any value of the buildings. In arriving at this fair price, the freeholder's liability to extend the lease for fifty years will be taken into account.

There will, of course, be special provisions to protect those freeholders who are local authorities, and other public authorities. Freeholders who can prove they want the house for their own occupation *and* would suffer hardship greater than that of the lessee may be able to escape the consequences of the new law. However, they must pay the lessee compensation. Where the lease is extended by fifty years but the lessee has not enfranchised, then the landlord will have the right during this fifty years to obtain possession if he shows that he intends to develop, but he will have to compensate the lessee.

Well managed estates may obtain Ministerial recognition, whereupon enfranchisement will be subject to an agreed scheme for the continued management of the estate as a whole, to preserve its amenities.

Lessees of houses whose rateable value just exceeds the statutory maximum may reflect bitterly that if the valuer had been slightly more generous he would have conferred on the lessee an enormous advantage.

[1] Leasehold Reform in England and Wales. Cmnd. 2916. H.M.S.O. 9*d* net.

Bill on the Ombudsman

THE Parliamentary Commissioner Bill setting up the Ombudsman and his department was published last week and follows closely the White Paper called *The Parliamentary Commissioner for Administration*, Cmd 2767, of October 1965. The commissioner will be appointed by Letters Patent at a salary of £8,600 plus a pension. It is thought that the whole scheme proposed in the Bill is 'unlikely' to involve expenditure of less than £200,000 a year.

As outlined in the White Paper, a complainant would have to write to an M.P. before the Parliamentary Commissioner could take cognizance of the complaint. Both individual and corporate bodies (excluding certain public bodies such as local authorities and nationalized industries) may make complaints but the Bill excludes certain matters from investigation. These include matters where there is recourse to a tribunal, access to a Court of Law (except in special circumstances) and certain subjects listed in Schedule 3 to the Bill. These Schedule 3 subjects include matters affecting relations between the Government of the United Kingdom and other Governments, action by a British Government official in another country, action taken to investigate crime or protect the security of the State, action taken by the health services, action relevant to contractual or commercial transactions and the granting of honours.

Departments and authorities subject to investigation are listed in Schedule 2. Reference to the Treasury, which is on the list, does not include the Cabinet Office, and reference to the Treasury solicitor does not include reference to the Procurator General. The Commissioner is empowered to deal with action amounting to obstruction or contempt by referring the matter to the appropriate superior Court.

The Commissioner will lay a general report before the House of Commons annually, and the report of the Commissioner and communication between himself and members of the House of Commons will be absolutely privileged.

Industrial Trends Survey

THE results of the twenty-fifth industrial trends survey conducted by the Confederation of British Industry does not throw any fresh light on the state of the economy. The results suggest that there has been no great change in the general business situation since last October and, although the value of output has continued to rise, so have both costs and prices.

As in the October survey there are again more firms less optimistic about the business situation than those taking an optimistic view. Capital expenditure is not expected to change substantially during the next twelve months. More significant, however, is the indication that the upward trend of new orders and deliveries for overseas markets is less strong than in the past. Likewise, the value of new orders overall has apparently increased by considerably less than did the value of output. Since this appears to be a continuing trend, it may imply, as the C.B.I. statement suggests, that the order book position is deteriorating.

It is in the capital goods industries where the downward trend is most evident; 9 per cent more firms in these industries reported a fall in the value of new orders than those reporting a rise, although output had increased in value for a balance of 16 per cent of firms. Nevertheless, the fact that more than half of the respondent firms, as compared with under half a year ago, reported that reduced 'orders or sales' constitute a limiting factor on output, suggests that industrial production is far from buoyant.

It seems, too, that the pressure on profits is intensifying. As in 1965, unit costs were reported to be rising by nearly two-thirds of the firms, although a very much smaller number of firms have increased their average selling prices. It seems that the downward trend in profits already reported by the Board of Trade is likely to continue.

The Government in the Economy

FROM time to time in these columns, references have been made to the need for defining the role which the Government should play in the national economy. There has been a widespread tendency to regard all forms of planning as desirable and the consequences of permitting market forces free rein as undesirable. In the newly published Occasional Paper (No. 8) from the Institute of Economic Affairs, entitled *Economics, Business and Government* (5s net), three eminent spokesmen comment critically on some recent aspects of the Government's intervention in the economy.

Professor John Jewkes takes many of his fellow economists to task for their efforts in taking the economy to pieces, yet ignoring at the same time the fact that such an intricate and complex mechanism does not lend itself to such over-simplification. Sir Paul Chambers, C.B.E., reviews current national economic planning and comments that the 'gross inefficiency of central planning to cope with consumer demand and with technological progress in peaceful industries is quite consistent with outstanding achievements in nuclear physics and rocketry, where there is one customer and costs do not count much'.

In the final contribution, Lord Robbins combines the training of a professional economist with the experience of the business man and lucidly criticizes the contemporary teaching of economics which, he contends, 'fails conspicuously to convey the vivid realities of business'. He notes, too, the changing composition of members of boardrooms of industrial companies and argues that business men and academics have far more in common than each side is apt to suppose.

This is an interesting and thought-provoking publication; in view of the possible imminence of a General Election its appearance is especially timely.

Economic Progress Report

THE latest *Progress Report* from the Department of Economic Affairs comments on three items of interest to accountants. First, it summarizes the official justification for the substitution of investment allowances by the new cash grants. The former, it is stated, were too widely dispersed in their benefits to be fully effective, while in some cases allowances were given for items which had little or no relation to productive investment. It stresses the importance of certain and speedy reimbursement of the expenditure or part thereof as is provided by the grant, and contends that new and fast-growing concerns were often unable to take full advantage of the old allowances. The report asserts that the combined effect of corporation tax and the new system of investment incentives is that about the same amount of tax will be paid by industry as a whole as under the previous system.

Secondly, reference is made to the White Paper on the Industrial Reorganization Corporation, the object of which body is to promote rationalization schemes which can yield benefits to the national economy, especially in terms of increased exports and more rapid technological advance. The corporation will try to promote groupings which 'will attract stronger management, support efficient research, design and marketing departments, achieve long production runs and use the most up-to-date plant'. To this end the corporation will be able to draw up to £150 million. It is tempting to assert that if the corporation can really achieve all or even any of these goals, it will be worth every penny of the public's money.

Lastly, the *Report* considers the recent upward trend of dividends paid out by quoted companies. It notes that company profits are now beginning to level off, while the change in the basis of company taxation will also have a limiting effect on distributions after April. Rather more interesting, in view of the criticism that has been directed against dividends from supporters

of the Government, is the fact that in 1938 income from dividends accounted for 9 per cent of personal incomes; while in the period 1952–55 it fell to 4½ per cent and is currently under 5½ per cent of all personal incomes. It is argued that this modest rise since the early and mid-1950s is due largely to the abolition in 1958 of the differential profits tax, together with increased depreciation allowances which allowed company income after tax to rise faster than income before tax. The *Report* notes that 'corporation tax will restore the tax advantage to be gained by retaining profits'.

Finance Act Led to Deaths

THE Finance Act, 1965, was stated last week to have been a contributory cause in the deaths of two Bournemouth accountants. After the inquest on Mr Edwin Payne, who gassed himself following a nervous breakdown, Mr Harold Payne, F.C.A., his brother and principal of the firm of C. R. Blissett & Co, Chartered Accountants, in which he was employed, is reported as saying: 'This Act, and those that preceded it, were undoubtedly a factor in my brother's death. It was the last straw.'

No mention was made of the legislation at the inquest on Mr Edwin Payne. The coroner recorded a verdict of suicide while the balance of the mind was disturbed.

The same verdict was recorded at another inquest in Bournemouth last week on Mr Harold Sykes Coley, F.C.A., a partner in the firm of O. Carter & Coley, Chartered Accountants. The coroner said that Mr Coley had been worried by the new legislation.

New Issues Flood

THE year 1965 witnessed a major boom in the new issue market; total new capital issues exceeding £770 million compared with just over £507 million in 1964 and some £590 million a year earlier. According to the *Midland Bank Review* for February, stating these facts, the largest total raised by new issues in previous years was £608 million in 1961. The most striking feature of the 1965 total was its timing. Thus, in the second quarter, only £74 million was raised whereas in the third quarter following the Budget some £269 million was raised.

Issues from the Government and other public bodies totalled £267 million, while company contribution to the record total in 1965 was over £413 million. Of that sum, a record proportion, over 90 per cent, consisted of debt issues. In the same period there were over one hundred issues of short-dated bonds by local authorities, compared with thirty in the last six months of 1964 when general power to issue such bonds came into effect.

A variety of factors contributed to the sharp increase of new issues last year. First, the credit squeeze which reduced the availability of bank lending forced companies to look for new sources, and this tendency was much reinforced by the new corporation tax which favours financing by bonds rather than equities. In contrast with the variety of restrictions on easy credit, e.g. hire-purchase restraints and the slowing down of capital expenditure, the demand for funds from borrowers remained at a consistently high level. This was despite the fact that the growth of investment in manufacturing industry began to level off during 1965, although it was higher than in 1964. In contrast, again, investment in the distributive and service industries actually fell during the third quarter of 1965.

The introduction of the new capital gains tax induced many unquoted companies to seek a stock exchange quotation so as to establish a market value for their shares. This involved the marketing of some part of the existing issued capital, although such transactions did not necessitate the raising of new capital. Following the large increase in bond issues, states the *Review*, it might have been expected as a consequence that the yield on debentures would have risen in relation to equities. In fact, the yield gap tended to narrow in the middle of the year although it widened again towards the end. Concluding its survey of the new issue market, the *Midland Bank Review* comments that it had thought to describe 1965 as the *annus mirabilis*, but already it seems as though 1966 may yet surpass 1965.

The Rating Scene

THE modest increase in the Greater London Council's rate poundage for 1966–67 hardly reflects the true position of local authority finances. Costs of the two major local authority services, i.e. education and housing, are rising rapidly and the demand for both services is likely to increase sharply in the next few years and into the 1970s. London, like some other authorities, has been able to draw on balances to keep the demands down, but this can at best be a temporary measure. Higher rents through the medium of rent rebates schemes are also helping to reduce the rate subsidy to council tenants which, in recent times, has been quite substantial.

It is nevertheless evident that the rating system is reaching its limit in terms of revenue raising. The recent Rating Bill, which will relieve the poorer householder, is certainly timely, but part of the cost of this relief, to say nothing of the additional administrative costs arising from the scheme and that for instalment payments of the rate, will fall upon other ratepayers. Whether the Treasury will be prepared to increase significantly its grants to local authorities in order that the rates can be held at about their present levels remains to be seen, but there are no obvious grounds for optimism in this respect.

Public demands for the abolition of the rate and its substitution by a local income tax are bound to be revived as more and more authorities make their demands for 1966–67 known. Early changes along these lines are hardly to be expected, but the decision to

wind up the Local Government Commission and at the same time set up a Royal Commission to inquire into the whole structure of local government presages major changes in the longer term.

There are already signs that the new regional economic councils will require changes to be made either in the powers of the existing local authorities or in their structure. For some time past, critics of local government have been urging upon the Government the need for change to enable local authorities to meet the new problems posed by regional planning. If regional authorities were to be set up in due course, then it would be quite feasible to operate a regional income tax. The Inland Revenue already prepares detailed statistics of incomes for the various regions and, from this year on, it is proposed to produce regional income figures annually.

It is tempting to discount the prospect of early change in the structure of local government for, as has often been pointed out, this is a subject which has been under discussion for several decades without any apparent results. The pressure of rising costs, however, is now compelling the Government to look at local government anew and, while it is unlikely that the local rate will disappear in the near future, if at all, the local authorities' dependence on this ancient tax may well be considerably reduced. Aggregate expenditure, however, will continue to rise.

This is My Life

by An Industrious Accountant

OUR company minute books have from time to time suffered a sea-change into something rich and strange, in Ariel's phrase, but at present they are models of what minute books should be. No longer do they comprise terse non-committal phrases such as: 'Future prospects were reviewed'; no longer does internecine struggle evidence itself in: 'At the deputy-chairman's request he was recorded as opposing the motion on the grounds that its premature implementation would lead to insolvency'; now they shine in the lustrous dignity of mellow old age.

This admirable phase commenced after we had passed through the stage when historical records of great executive utterances, 'what oft was thought but ne'er so well expressed', were valued for their own sake. We had at last matured into writing: 'A budget of £156,000 was approved for the reconstruction of the west wing, as per quotation from Smith & Co Ltd dated February 10th as amended by the building committee's memo dated February 16th'. We were pleased with our meticulous precision . . . at least, we were pleased until we discovered that we'd overrun the budget. Then we realized that someone had taken salvaged materials as credited, someone else had assumed that the extension to the conveyor belt was included, and the master-brain of the operation had expected that the salaries of his two new assistants would be expensed instead of capitalized. Hence the chaos.

Now I carefully issue preliminary drafts of each meeting's minutes to each director for comment, if necessary, within three days, and settle controversial interpretations in advance of, rather than after, inclusion in the typed, loose-leaf, brass-bound tome that is our master manual.

In view of all this, I was surprised when the auditor in charge of the interim visit to our offices said he didn't intend to examine the minute book yet; he'd leave it till the final audit. In a vague way he seemed to be doing less than his duty. He hadn't seen the written declaration of the interim dividend, for example, or the write-off of the loss on surplus Christmas toys unsold, or the forecast of a reduced overdraft in 1967 (we used a crystal ball for this particular guesstimate, so perhaps it was just as well). There may have been a tinge of criticism implicit in my look, because he sat back in leisurely style to amplify his remarks.

'We work to programme, you know', he smiled. 'We've spot-checked and covered all the really important items, including the taxation computation queries and the increased directors' remuneration'. He's a short, stocky man of rather compelling gaze, whose memory has been found invariably accurate. 'We presume you'll advise us if anything noteworthy, ah, necessitates our further action or a longer attendance . . . naturally, we always rely on your co-operation'. Momentarily he sounded again like the ack-ack officer he'd once been, picking off buzz-bombs, as he put the minute book firmly in its place, metaphorically speaking. 'I'm more concerned with the items that never got as far as the black and white of the minute book, you know. They're the problem areas'.

His point was well taken. He was doing his job his own way and appraisal by misinformed outsiders was uncalled for; his record of quiet, painstaking efficiency spoke for itself. In fact, our security, company-wise, derived largely from his scrupulous attention to his work. For all the talk of modernizing and rationalizing our craft, his type of accountant is one of the cornerstones of the profession which goes unsung or denigrated far too often nowadays.

'The ill-timed truth we might have kept –
Who knows how sharp it pierced and stung?
The word we had not sense to say –
Who knows how grandly it had rung?'

Industrial Relations

The substance of an address by Mr George Woodcock, C.B.E., General Secretary of the Trades Union Congress, at the annual President's Meeting of The Chartered Accountant Students' Society of London, held in Guildhall on Wednesday of last week.

IN his opening remarks, Mr Woodcock said that he did not wish to talk on the structure or practices of the trade unions, but to comment on the way in which Britain dealt with a problem which was common to all industrial countries – the problem of relations in industry – and the question of 'what do you do about the disputes, the issues that arise as between what the law calls master and servant or, as we call them, employers and employees'.

'Let me say straight away that when I say employers I do not necessarily mean private employers, people running limited companies; I do not mean only them. The relationship of employer and employed exists whoever owns industry. You do not eliminate these issues, nor do you provide the solutions to these issues, by changing the ownership of industry. In the case of the nationalized industries the problems may be somewhat different in emphasis but the problems do exist in the nationalized industries as they do in private industry, and if I may say so, they exist in every country which is industrialized. You can have a Communist Government, you can have a dictatorship Government, or you can have a democracy; the difference is not that the problem does not exist in a dictatorship but that a dictatorship goes about dealing with it in a different way.

'The way we go about dealing with the problem in this country is that, for the most part – at any rate in the past – the tradition has existed that the relations within industry between workmen and employers, the arrangements they come to, are entirely a matter for the two parties themselves. The State did not interfere, was neutral, impartial – we might say indifferent – and it was left entirely to the two parties to make the best arrangements they could.

'Everyone recognized this relationship, this status of workpeople, and I suppose this status of employer, in Britain but in a very limited sense; indeed, I would say in an unrealistic sense. The State recognizes, and will assume in the absence of such, a contract of employment between a workman and the person who employs him for his services; but this is a direct contract between two individuals. The State does not interfere with the making of the contract, and does not support by legislation or Government interference one side against the other in the making of the contract, but it will allow the parties to use the Courts of the land for the enforcement of that contract one on the other.

'That, substantially, is the position in this country, the position of the State, in respect of these relationships within industry. But, this, as you know, or should know, is no good for the bulk of the workpeople in this country, or in any industrialized country. This system of individual contract is all right for the man of exceptional qualities, geniuses, who because of their special qualities, can by themselves make a fair bargain or a fair contract with the people who seek their exceptional talents. For the very great majority of working people in this country, however, this is not a satisfactory arrangement. The bulk of the working people are not a mass of geniuses, nor have they any special qualities which would enable them to stand by themselves and get a fair contract with an employer; it is ridiculous to assume they could. The working man is not unique in himself, he is not an articulate person in the ordinary way of life; indeed, he probably feels he is very much handicapped, partly, I suppose, by our social system which throws him on to the labour market not particularly well educated and certainly not well educated about conditions in industry, and he is certainly no match for the employer.'

Mr Woodcock then went on to say that the formation of trades unions was for the benefit of the working man in order that he could do with others what he could not do individually for himself – that is get a fair contract of employment. 'In this way one sees the working men in their unions standing together to achieve their common

Well known as the General Secretary of the T.U.C., Mr Woodcock is also a member of the National Economic Development Council, the Royal Commission on Trade Unions and Employers' Associations, and the B.B.C. Advisory Council. He was a member of the Royal Commission on the Taxation of Profits and Income, 1952–55, and of the Radcliffe Committee on the Working of the Monetary System, 1957–59.

objectives, and collectively they can achieve these where they could not do so individually. They do this by what are called negotiations, but for which a better name is bargaining, and in this country this is an entirely voluntary process. The State did not come into it at all. It was a free voluntary bargaining process; the procedure was voluntary, and the result was voluntary. That had been the practice in Britain for nearly two hundred years'. Mr Woodcock then stressed that although he had said the State did not come into the process, he did not want it thought that the State was wholly out of the field; the State did protect certain categories of workpeople in the way of regulating hours of work and so on – the miners, for example, where their hours underground could cause danger to health; and there were laws regulating the hours of labour for a lorry driver, and that was done to protect the public and not solely to protect the driver.

He added that there had recently been some further encroachment into this field by the State – for example, the Contracts of Employment Act. He did not think too much of this himself, but there was a tendency for the State to enter more into this field.

Means of bargaining

At this point Mr Woodcock stressed that his audience should remember, when there was talk about strikes and restrictive practices, that strikes were not entered into lightly, but were one of the only forms of bargaining power which bodies of workpeople had at their call in the absence of any real legislation on pay and conditions. He pointed out that there were many people in the country who were not equipped to press their case for better wages, and mentioned that there was nothing in the law of the land which prevented an employer from working an adult man for twenty-four hours a day for seven days a week for fifty-two weeks a year and paying him nothing at all, if that man was simple enough to agree to it.

'The employer is not even required legally to recognize trade unions, and there are quite a number of employers even in 1966 who did not do so, and the law says "that is perfectly all right; you do not have to recognize them if you do not want to". Therefore, if the law says they are not interested, or not concerned, whether an employer recognizes trade unions or not, then you must not be surprised if the workpeople take the decision into their own hands and say "if the law is not concerned, then to ensure the employer does recognize the union we will see that he does. If the law will not help us, then please do not let the law hinder us".' Mr Woodcock asked his audience to remember this when they heard talk about such things as the closed shop. 'If the workman thinks he has a better bargaining system if it is organized on a narrow basis rather than on a broad basis, who is there to say he is wrong, or more correctly, who is there perfunctorily to tell him he is wrong or that he cannot organize on a basis which is good for himself?' Mr Woodcock stressed that the strike was a bargaining instrument of the trade unions. 'It was a thing they feel they are entitled to use when weight and intelligence and skill and flexibility in negotiations get them nowhere. After all, what could they do if they did not feel they were getting anywhere? Run round to the Ministry of Labour and say "My employer is not giving me a fair deal". The answer they would get would be that it was not a matter for the Ministry; it was a matter to be dealt with and settled between employer and employed.'

Referring to the Government's prices and incomes policy and the Prices and Incomes Board, Mr Woodcock felt that it could be that they might have to be abandoned, and he believed that time was running out. He stressed that the Government and the Board had warned that time would be needed before such a policy of persuasion and early warning could become effective. It was never meant to work overnight – but to achieve their policy he felt that the Government might have to step up statutory intervention. The Government might be forced to develop the policy from a voluntary basis to give it some statutory context. He personally did not believe that one could get a great deal from legislation in this field, but if the Government did not succeed they might well say that they could not fulfil any longer their responsibilities in this field – he stressed that it would not be because they did not want to, but because they just could not.

On the incomes policy, Mr Woodcock said that he could not see that the $3\frac{1}{2}$ per cent norm could be anything other than a guide which might or might not reflect the overall picture. 'It was quite easy', he said, 'for anyone to tear the idea of a Prices and Incomes Policy apart, but at least it was being attempted, and in fact every Government since the war had tried in some form or another to achieve such a policy.' He quoted the freeze of Mr Selwyn Lloyd in his period as Chancellor of the Exchequer and said that it was impossible to force down the throats of the workpeople a wage freeze, especially when it was aimed at such as the direct employees of the Government. 'It was all very well to freeze their pay, but you could not expect them to stand idly by and watch the people in the private sector of industry getting more, while they were not able to. A policy on prices and incomes must affect all the workpeople and not just one sector.' Mr Woodcock said that if anybody thought that by putting in a norm they were going back to the wage freeze, they were completely wrong – this was not something which would be unilaterally applied.

On the prices side, Mr Woodcock did not think the employers were doing enough. Whereas the Trades Union Congress dealt with fifty or sixty wage claims a month, all the Confederation of British Industries was prepared to do was to circulate the White Papers of the Ministry of Economic Affairs to its members.

Fringe cases

As for the Prices and Incomes Board, Mr Woodcock said that it could only hope to deal with the fringe cases in either realm, and therefore it was not contributing very much to the policy as a whole – it should be remembered, however, that the Board considered its claims in depth whereas the T.U.C. were able to deal with the aforesaid fifty or sixty wage claims a month because they did not have to go into so much detail as the Board. All that members of the T.U.C. were able to put forward were very strong cases and pleading special circumstances, and they could not spend their time arguing these points too much with men who knew the details of their own industries and cases far better than he and his colleagues.

Mr Woodcock said that an incomes policy in Britain meant drawing from people the will to adapt their aims to a common objective, and in this case it was economic growth. He did not think that one could in any country, and certainly not in this country, superimpose these things on one side or the other.

Credit Insurance for Small Exporters

by AN INSURANCE CORRESPONDENT

MENTION of credit insurance more often than not probably brings to mind the cover provided by the Exports Credit Guarantee Department. But it may not always be appreciated what this organization is and what it does – especially for a company which is trying to break into the export market.

E.C.G.D., as it is commonly known, is a separate department of the Board of Trade and provides credit insurance for United Kingdom exporters. The department is run on a business footing and is non-profit making. On the other hand, the intention is that it shall pay its way and not, therefore, provide a form of subsidy to the export trade.

Business has expanded rapidly. 'Commercial' business insured is now running at more than £1,200 million per annum, for more than 8,000 policyholders. In the early years after its formation in 1919, E.C.G.D. operated various schemes confined to the insurance of insolvency risk, which permitted exporters to select for cover particular transactions with individual buyers. In the early thirties the department began to provide insurance on a 'comprehensive' basis. In those days, however, if this cover was required, the exporter had to offer the whole of his business for insurance. Only one cause of loss was covered – the insolvency of the buyer – and cover did not commence until the goods had been shipped and delivered.

Transfer Risk

When the United Kingdom came off the gold standard and exchange control was introduced in many countries, the department ventured into what came to be called the 'transfer risk' field. Exporters were given the option of insuring the 'transfer risk' for selected markets. Since the Second World War, standard policies of E.C.G.D. have been expanded so that, in a single document, there is comprehensive cover against the transfer, insolvency, default, and other risks of export trading.

Of course, it is not always necessary to go to E.C.G.D. Quite often the credit insurance available from commercial insurers in the market is perfectly suitable in respect of exports to such areas as the Commonwealth, Western Europe, or North America, where there should be little or no 'political' risk – though perhaps 'should' is the operative word at the present time! In this case, the cover granted would be for the risks of insolvency or protracted default of a buyer, of money owing in respect of goods sold and delivered, work done or services rendered.

E.C.G.D. cover, however, is rather wider than this. For example, it includes additional handling, transport or insurance charges arising from interruption or diversion of voyage which cannot be recovered from the buyer. Also there is cover for other causes of loss arising outside the United Kingdom. For instance, E.C.G.D. provides cover for loss which arises from such causes as Government action which blocks or delays transfer of payment in sterling to the company which is exporting, or the imposition of new licensing restrictions in the buyer's country, or the cancellation of a valid import licence. Such risks normally are not covered by commercial insurers. Besides this, E.C.G.D. provides cover for any loss caused by the cancellation or non-renewal of a U.K. export licence, or the imposition of new export licensing restrictions.

Simplified Procedure

Many companies which think about exporting are put off by the complications and paper work which may be involved. This is a pity, but understandable. E.C.G.D. appreciates these problems and has done its best to break them down for any company which will be exporting in a small way. Instead of being faced with the full range of policies, premium rates and technicalities involved in credit insurance, E.C.G.D. provides a very much simplified form of procedure to companies where the annual direct export turnover is below £10,000. It is due to the fact that the sums at risk are relatively small, that considerable simplification has been achieved, and, broadly speaking, with this simplified form of insurance, there is the same degree of protection as under the department's normal policies. Nevertheless, this special treatment for 'beginners' does not continue indefinitely. When any company with a 'small exporter's' policy has insured £20,000 of business (or in any case after two years), the normal form of cover must be adopted. No longer is the company in the 'small exporter' bracket.

The aim of the simplified form of policy is to enable a company exporting in a small way to insure, individually, sales to any credit-worthy buyer for cover on any terms up to six months' credit. The insurance applies in any market currently covered by E.C.G.D. The department checks the credit-worthiness of proposed buyers; and both the amount of the credit and the credit terms are taken into consideration. There is, of course, no charge for this service.

The flat premium charged on a 'small exporter's' policy is 12*s* per cent. This rate applies irrespective of the buyer and of the area. It is charged for a risk on any terms of credit up to 180 days.

Further simplification for both sides is achieved by

a limited form of block payment of premium in advance. Initially, a company is required to purchase 'block' cover on £500 or more of business; the premium for each block of £500 being only £3. The department looks after the accounts of individual companies and charges whatever business is insured against the premium already paid. In the event of the policy being terminated for one reason or another, any premium still in the hands of the department which has not been 'earned' is repaid to the company.

When requested, the department will provide an insured company with a document assigning any claims to the company's bank. It is likely that an exporting company's bank will ask for an assignment of this nature in the course of arranging finance to tide the company over the 'credit period' until payment is received.

While it is the aim of this kind of policy to simplify the whole procedure as much as possible, it is, of course, necessary to complete a proposal form when the initial arrangements are being made. After the submission of the proposal form, it is necessary to complete a form showing the value of the transaction to be insured and the name of the buyer. E.C.G.D. then checks the buyer for credit-worthiness and, if approved, returns the form to the exporting company together with its agreement to cover the business.

So far as the checking of buyers is concerned, the department makes the stipulation that while it is quite ready to check the credit status of any buyer with whom an exporting company is actively negotiating business, it is not prepared to check the credit-worthiness of names culled from trade directories.

A further point which should be noted is that once business with E.C.G.D. has been agreed in connection with a particular buyer, any further business which is done with that buyer must be insured. It should not, however, be thought from this that E.C.G.D. insists on all export credits being insured. A company is perfectly at liberty to decide in the first place whether it wishes to effect insurance in respect of a particular buyer or not. It may therefore insure in respect of some, and not others.

Declarations Required

An application having been made to E.C.G.D., usually the department's agreement to provide the necessary cover will arrive while the negotiations with the overseas firm are still in progress. Later on, therefore, E.C.G.D. will wish to know whether business has resulted from the negotiations. The accepted procedure for notifying E.C.G.D. is for the insured company to send the department a form 'declaring' the contract of sale. In due course, when shipment under the contract has been made, the company is required to send to E.C.G.D. a declaration of export.

It will be seen, therefore, that a minimum amount of paper work is involved. In the normal course of events, the insured company is concerned with only three forms: the initial contract application; the declaration of contract if business results from the negotiations; and the declaration of export which is sent to E.C.G.D. when shipment has been made.

In the event of it becoming necessary to lodge a claim, however, a further form is required. When payment from an overseas buyer is more than three months overdue, a declaration of overdues must be sent to E.C.G.D. A claim is due for payment four months after 'the event causing the loss'.

An insured company wishing to assign its rights to claims under a policy to a bank, may either complete one all-embracing authority (assigning all rights under the policy), or it may assign any rights concerning a particular transaction. Incidentally, a bank is likely to wish to see the approved application returned by E.C.G.D. This will be evidence that the necessary cover has been arranged.

Conditions and Exceptions

Inevitably, under the 'small exporter's' simplified form of cover, there are certain conditions and exceptions. For instance, it is not possible to cover by this means certain business which is not entirely straightforward. Nevertheless, it is quite possible that the cover required may be available under one of the department's standard policies. Secondly, it is not the aim of this cover to provide indemnity for any loss which may arise through any act or default on the part of the exporting company which is insured, or for any losses which arise from the refusal of the buyer to accept the goods. Though in this latter connection it is worth noting that if an exporter sues a buyer who subsequently becomes insolvent, the company could claim against E.C.G.D. under the heading of insolvency.

The simplified form of policy does not provide insurance cover for contracts such as re-export deals, 'invisible' exports, shipments 'on consignment' – which are not 'for the sale for export from the United Kingdom of goods wholly or partly produced or manufactured in the United Kingdom'. However, such cover may well be available from E.C.G.D. under one of the department's standard forms of policy.

The 'small exporter's' policy also does not cater for contracts which provide for longer than twelve months between contract and shipment and losses where goods have not, in fact, been shipped within twelve months.

As an aid to exporters E.C.G.D. on occasions is prepared to provide cover for sales invoiced in foreign currencies. It should be made clear, however, that when cover is arranged on this basis, the policy is simply extended to cover the same risks as if the contract had been expressed in sterling. Such policies do *not* provide exchange depreciation cover; should this be required, advantage should be taken of 'forward exchange contracts'. A bank will be able to help in this connection.

Although not strictly an aspect of credit insurance, it should not be overlooked that in certain circum-

stances, goods can revert to the exporter. This can arise if for any reason the buyer refuses to accept the goods or to take up the documents. Should this occur and the goods be damaged, it may be difficult to dispose of them. If, therefore, the seller has no other insurance in force, there is much to be said for arranging a 'seller's interest' contingency policy. This type of insurance should provide an indemnity for any loss or damage to the goods caused by specified perils during transit, should they revert to the exporter.

What's so Special about December 31st?

by A COMPANY ACCOUNTANT

IN times gone by when life was more leisurely, December 31st was as good a time as any, and better than most, on which to close the annual accounts. Today, most of the former advantages seem to have disappeared and a number of drawbacks have taken their place.

Certainly, in the case of large-scale concerns with widespread subsidiary companies, factories or branches, the postal delays at Christmas and the New Year can play havoc with a tight programme of accounting dates. This is particularly true of companies in the north having businesses on both sides of the border, where poor communications may be further dislocated by staff being on holiday at different times. Of course, staff can be asked to postpone their holidays and many concerns pay overtime rates for working on statutory holidays; in big companies, however, the cost of this may be considerable.

In January, when company accountants are going flat out to finalize the results of the year ending on December 31st, the weather in Britain is usually at its worst and a flu epidemic is liable to cut the staff in half almost overnight at a vital stage in the proceedings. If that does not happen, there is always a risk of snow, ice or fog slowing transport down to a crawl and reducing the effective working day by an hour or two.

It is true that some of the setbacks mentioned could equally well occur in other winter months, but the probability is not so high, and in the January/February period events seem to conspire to make life particularly frustrating for the hard-pressed accountant.

The writer has no information about the percentage of concerns which produce accounts as at December 31st, but looking back twenty years or so to his own days in practice, he would guess that nearly half were in this category. This must throw a considerable strain on the resources of the auditors who have to verify the accounts. Everybody seems to be in a hurry nowadays, no one wants to be last, and the first few months of each calendar year must be pretty hectic in the office of the average firm of public accountants.

Incidentally, the craze for speed in producing published accounts has resulted in a situation where the auditor often finds himself confronted with a lot of estimates which he is not in a position to check very effectively. The reason for this is that, following hard on the heels of the accountancy staff, he can be no better informed than they are. In well-organized concerns staffed by competent accountants, reasonable estimates of various liabilities etc. can probably be accepted, and indeed they are; however, things are not always what they seem to be, and from time to time such cases as the 'Bloom affair' and Associated Fire Alarms crop up to illustrate the traps created by optimistic estimates.

What one is saying, in other words, is that auditors are primarily responsible to the shareholders and should not allow themselves to be forced by some whim of the directors to meet a nearly impossible deadline which may cause skill and accuracy to be sacrificed for sheer speed.

Tax-wise, December 31st as a date for the end of a financial year never seemed to the writer to offer any significant advantage in the past, and since the introduction of corporation tax, it may well be that for many companies, September 30th, could prove to be a more attractive date. At least, by choosing that date, companies would ensure that their profits would be taxed at an average rate (assuming fluctuations in the rate of corporation tax) thus lessening the risk of a year of high profits coinciding with a high rate of tax, which is a possibility for companies with year-ends around March.

The advantages then, of September 30th, as a convenient year-end date can be summed up as follows:

(1) accounting staff are fresh and in good trim after recent holidays;

(2) although the nights are drawing in, the rigors of winter weather are yet to come;

(3) there are no immediate statutory holidays, Christmas parties, hogmanay 'whoop-ups', or legitimate reasons for postal delays to halt, disrupt, impede or frustrate the keen accountant.

(4) when the rush is all over, the staff can look forward to a well-earned break at the festive season like most other folk.

Worth thinking about, isn't it?

Inland Revenue Extra-Statutory Concessions

In Operation at December 31st, 1964

Reproduced below, by permission of the Controller of H.M. Stationery Office, is a consolidated list of extra-statutory concessions in operation at December 31st, 1964, published as an appendix to the 108th Report of the Board of Inland Revenue. The concessions are of general application, but in certain cases there may be special circumstances which have to be taken into account.

INCOME TAX

1. Business passing on the death of a trader

The death of a trader and the consequent passing of his business to his successor is an occasion for the application of the discontinuance provisions of the Income Tax Acts. Where, however, a business passes on death to the trader's husband or wife who has been living with her or him, the discontinuance provisions are not enforced unless claimed. But, in any case, losses and capital allowances for which the deceased had not obtained relief are not permitted to be carried forward.

2. Machinery or plant: changes from a 'renewals' to a 'wear and tear' basis

Expenditure on machinery or plant which has been the subject of a 'renewals' deduction does not technically qualify as capital expenditure for the purpose of annual 'wear and tear' allowances or balancing allowances (section 330 (1) (*a*) of the Income Tax Act, 1952). Taxpayers who change from a 'renewals' to a 'wear and tear' basis are, however, permitted to claim such allowances as if the expenditure did so qualify.

3. Capital allowances for agricultural buildings and works

For the purposes of the agricultural capital allowances under section 314, Income Tax Act, 1952, and of the agricultural investment allowance under section 16 (5), Finance Act, 1954, 'husbandry' is treated as including any method of intensive rearing of livestock on a commercial basis for the production of food for human consumption.

4. Loss relief for capital allowances unused on the cessation of a business

Section 20 of the Finance Act, 1954, adjusted by section 18 of the Finance Act, 1962, enables capital allowances to be taken into account in arriving at the amount of loss on which relief is given, under section 341 of the Income Tax Act, 1952, against the tax on the trader's aggregate income. When there is a trading profit, loss relief is given on the excess of the capital allowances over the trading profit of the same basis period, and normally the capital allowances up to the amount of the trading profits are relieved by being set against those trading profits (resulting in a nil assessment). 1952.

Where, however, there are capital allowances brought forward from earlier years, these must be allowed in the assessment in priority to the current allowances, and the current allowances, so far as they cannot be set against the assessment, must in turn be carried forward. In a year of cessation no such carry forward of these unused current allowances is possible. Relief may be due for them under section 18 of the Finance Act, 1954 (terminal losses), but so far as it is not, relief will be lost. Where there would otherwise be a loss of relief, it is the practice in the calculation of the loss, for the purpose of section 341, to treat the profits of the final year as reduced by the amount of capital allowances brought forward, thus increasing the amount of the capital allowances for the final year which are available for loss relief.

5. Industrial buildings allowances: private roads on industrial trading estates

Where the owner of an industrial trading estate has incurred capital expenditure on the provision on the estate of private roads which remain in his occupation, and he is not himself carrying on a trade which would qualify him for industrial buildings allowances in respect of the expenditure, he is treated in practice as if he were carrying on a qualifying trade and so entitled to the allowances if all the lessees occupying the premises on the trading estate are themselves carrying on qualifying trades.

6. Maintenance and repairs of property obviated by alterations etc.; Case VIII assessments.

Where maintenance and repairs of property are obviated by improvements, additions and alterations, so much of the outlay as is equal to the estimated cost of the maintenance and repairs is allowed as a deduction in computing liability in respect of rents under Case VIII of Schedule D. This concession does not apply where:

(i) the alterations etc. are so extensive as to amount to the reconstruction of the property, or

(ii) there is a change in the use of the property which would have made such maintenance or repairs unnecessary.

7. Tithe redemption annuity paid by a trader

Under section 31 of the Finance Act, 1963, five-sixths of a payment on account of a tithe redemption annuity is deductible from the income of the payer for the year of assessment in which it is payable.

Where a person pays tithe redemption annuity in respect of premises used for the purposes of his trade, profession of vocation, but his income is not sufficient to enable relief to be given in respect of the whole of the amount so

deductible, the amount in respect of which relief cannot be given is treated as though it were a trading loss available for carry forward under section 342 of the Income Tax Act.

8. Maintenance expenses of owner-occupied farms not carried on on a commercial basis

Where the owner-occupier of a farm in the United Kingdom makes a loss but is precluded by section 20, Finance Act, 1960, from claiming relief against the tax on his general income because his farming is not carried on on a commercial basis and with a view to the realization of profits, he may claim the same relief for the cost of maintenance, repairs and insurance of his agricultural land (i.e. land, houses or other buildings occupied wholly or mainly for the purpose of husbandry) as can be claimed under section 313, Income Tax Act, 1952, by a landlord of agricultural land. For this purpose one-third of the relevant expenditure on a farm-house is regarded as agricultural and two-thirds as domestic.

9. Deficiency payments in respect of home grown cereals

Deficiency payments in respect of home grown cereals should in strictness be credited, in the case of wheat and rye, by reference to the dates when the crops were sold and delivered, and, in the case of barley, oats and mixed corn crops, by reference to the dates of harvesting as grain. In practice, except where the 'commencing' or 'ceasing' provisions apply, final deficiency payments for cereals other than wheat are, however, allowed to be brought into account in the farmer's accounting year in which such payments are notified.

Further, where total deficiency payments are small or where they have been dealt with in the accounts in such a way that any adjustment in respect of such payments would be unlikely to make more than a small variation in the profits, no objection is raised to the liability being settled on the basis of the accounts.

10. Doctors' and dentists' superannuation contributions

Under section 378 of the Income Tax Act, 1952, contributions required to be made in pursuance of a public general Act of Parliament by the holder of an office or employment towards the provision of superannuation benefits may be deducted in assessing his emoluments. Section 378 is in practice treated as extending to assessments under Schedule D on the profits of a medical or dental practitioner who is required to make superannuation contributions in pursuance of the National Health Service Acts. Where, however, the practitioner also pays premiums or contributions towards a retirement annuity within section 22 of the Finance Act, 1956, the deduction for his statutory contributions is restricted to the difference between the amount on which relief is due under the Act of 1956 and the greatest amount on which he could claim such relief on paying a sufficient premium.

11. Flat rate allowances for cost of tools and special clothing

An employee who has to bear the cost of upkeep of tools or special clothing necessary for his work is entitled, under paragraph 7 of the Ninth Schedule to the Income Tax Act, 1952, to an allowance for the expenditure incurred. For most classes of trade flat rate allowances have been agreed with the trade unions concerned, and these allowances are given without inquiry as to the expenditure actually incurred in the individual case. The existence of a flat rate allowance does not, however, debar an individual employee from claiming as a deduction the actual expenses he has incurred.

12. Miners: allowances in lieu of free coal

Income tax is not charged on cash payments received by miners from their employers in lieu of the free coal which they have been entitled to receive by virtue of their employment.

13. Meal vouchers

Income tax is not charged on the value of meal vouchers issued to employees subject to the following conditions being satisfied:

(i) Vouchers must be non-transferable and used for meals only.

(ii) Where any restriction is placed on their issue to employees, they must be available to lower paid staff.

(iii) The value of vouchers issued to employees must not exceed 3*s* for each working day.

The value of any voucher or part of a voucher that does not comply with these conditions is taxed.

14. Pensions to police officers and firemen

The amount by which the pension awarded on retirement through disablement from injury on duty (or from war wounds) exceeds the pension which would have been awarded if retirement had been on ill-health grounds is not treated as income for income tax purposes. Similarly, a disability pension awarded in addition to a retirement pension is not treated as income.

15. Children of war widows

(*a*) The exemption from income tax given by section 380 (3) of the Income Tax Act, 1952, to payments made by the Ministry of Pensions to widows of members of the Forces in respect of their children is applied to similar payments in respect of children made to 'unmarried wives' and also to similar payments in respect of children made to widows and 'unmarried wives' of members of the Mercantile Marine and to widows of civilians who have died from war injuries.

(*b*) The same exemption is also applied to similar payments in respect of children which are made to war widows (or 'unmarried wives') by Commonwealth governments.

16. Annuities paid by approved superannuation funds

Where an annuity paid out of a superannuation fund approved under section 379 of the Income Tax Act, 1952, is by virtue of a direction made under section 379 (2), assessable on the annuitant under Schedule E, relief for the standard rate tax which, but for the direction, would be deductible from the annuity is allowed against tax borne by the fund on non-exempt income.

17. Overseas provident fund balances

Income tax is not charged on lump sums referable to service overseas and receivable by employees from overseas provident funds (or under arrangements analogous to those of such a fund) on termination of employment overseas.

18. Directors' travelling expenses

The general rule is that the cost to a taxpayer of travelling to and from his place of business is not allowable as a deduction in computing his tax liability; consequently, the full amount of an allowance paid by a company to a director or senior employee in respect of such expenses is chargeable to tax under Chapter II of Part VI of the Income Tax Act, 1952. The rule is modified in the following types of case:

(i) A director (whether whole- or part-time) of two or more companies within a group of parent and subsidiary or associated companies, whether or not entitled to separate remuneration from each of the companies of which he is a director, is regarded as having one place at which he normally acts as a director of companies within the group, and as entitled to a deduction (or a dispensation from assessment under section 164 of the Income Tax Act, 1952) for expenses necessarily incurred in travelling from that place to other places on the business of the group in the course of his duties as a director. The same principle is applied to an individual who is an employee of one company and a director of another company within the same group of companies. (By 'associated company' is meant a company on whose board the group is represented because of the group's shareholding or other financial interest.)

(ii) A director who gives his services without remuneration to a company not managed with a view to dividends (e.g. a company owning a hall or sports ground, or running a club) is not treated as assessable in respect of any travelling expenses paid to him.

(iii) Where a directorship is held as part of a professional practice (and not, for example, because of some direct or indirect financial interest in the company), expenses incurred by the director in carrying out his duties are allowed as deductions in assessing the profits of the practice under Schedule D, whether the practice is carried on alone or in partnership. Reasonable expenses paid to the director by the company are accordingly not assessed upon the director under Schedule E, provided no claim is made to a deduction under Schedule D.

'Travelling expenses' includes in all cases reasonable hotel expenses necessarily incurred.

19. Expenses allowances and benefits in kind

Under Chapter II of Part VI of the Income Tax Act, 1952, expenses allowances and benefits in kind received by directors and (with certain exceptions) by senior employees are assessable to tax as emoluments of the director or employee, subject to a deduction for expenses incurred which satisfy the conditions laid down in paragraph 7 of the Ninth Schedule to the same Act. The following relaxations are made in practice:

(*a*) No assessment is made in respect of removal expenses borne by the employer where the employee has to change his residence in order to take up a new employment or as a result of transfer to another post within an employer's organization, provided that the expenses are reasonable in amount and their payment is properly controlled. 'Removal expenses' includes such related items as a temporary subsistence allowance while the employee is looking for accommodation at the new station.

(*b*) Under section 161 (3) of the Income Tax Act, 1952, living accommodation provided for an employee (as distinct from a director) in part of the employer's business premises is exempt from charge under Chapter II of Part VI where certain conditions are satisfied. In practice the exemption is also allowed in the case of a full-time director of a company whose beneficial shareholding does not exceed 5 per cent of the ordinary share capital, unless his emoluments (including the value of benefits within the scope of Chapter 11) exceed £2,000. The exemption does not apply to expenses of occupation such as heating, lighting, etc., met by the employer in respect of such accommodation, but the amounts charged under this head on an employee or director (within the above description) are restricted in the case of a patently old-fashioned and too large house.

20. Dependent relative allowance

Where a dependent relative (within the meaning of section 216 of the Income Tax Act, 1952) does not reside with the claimant and receives from him less than the amount of the allowance provided for by that section (as amended), an allowance of the actual amount of the contribution is given, though in strictness the requirement that the relative should be 'maintained' by the claimant is not fulfilled. Where contributions are made by two or more persons, though not amounting in all to the statutory allowance, an allowance of his actual contribution is given to each.

21. Members' contributions to trade unions

So much of a member's contribution to a trade union (whether registered or not) as is allocated to superannuation benefits, in addition to any portion allocated to funeral benefits or life assurance, is treated as qualifying for life assurance relief.

22. National insurance contributions: relief for retrospective payments

Under the National Insurance Acts voluntary retrospective payments can be made to cover a period during which a contributor was receiving full-time education after the age of 18, or was undergoing full-time unpaid apprenticeship. There is no legal entitlement to income tax relief for these contributions, but in practice relief in respect of the portion of such payments which goes to secure taxable national insurance benefits is given for the income tax year in which payment is made.

23. Retirement annuity relief

Under sections 22 and 23, Finance Act, 1956, an individual who is taxable in respect of earned income from a trade, profession, vocation or non-pensionable employment may be allowed a deduction from his net earnings for any year, of the amount of any premium he pays in that year under an approved contract for a life annuity on retirement.

In general, section 23 (1) restricts the allowable deduction to 10 per cent of the net earnings from the trade etc. for the year in which the premium is paid, with an overriding limit of £750. (For persons born in or before 1915 these limits are increased; the maximum percentage is 15 per cent of net earnings, up to a limit of £1,125, and this applies in the case of persons born in 1907 or before.) Section 23 (2) provides that where the qualifying premium paid in any year cannot be allowed, or cannot be wholly allowed, as a deduction from that year's net earnings solely because it

exceeds the relevant percentage of that year's net earnings, the unallowed portion shall be carried forward to the next year and treated as if it were a qualifying premium paid in that year, and so on for succeeding years, if necessary.

Where for any year the overriding limit (e.g. £750) applicable in the particular case is exceeded solely by reason of unrelieved premiums brought forward from earlier years, the position in strict law is that the excess over the overriding limit cannot be carried forward to subsequent years and relief is therefore lost. In practice, however, an excess arising in 1963–64 or a subsequent year will be allowed to be carried forward.

24. Residence in the United Kingdom: year of commencement or cessation of permanent residence

For the income tax year in which a person comes to the United Kingdom to take up permanent residence his income from abroad is not assessed on the basis of the income for a full income tax year but is computed by reference to the period of his residence here during the year. A similar practice is adopted for the income tax year in which a person ceases to reside in this country if he has left here for permanent residence abroad. (This concession does not apply to changes of permanent residence between the United Kingdom and the Irish Republic.)

25. Interest etc. paid otherwise than out of taxed income

Under section 170 of the Income Tax Act, 1952, tax deducted from interest, annual payments, etc., paid otherwise than out of taxed income has to be paid over to the Revenue.

Where interest etc. is so paid in a later year than the due year, but in the due year could have been paid wholly or partly out of taxed income, an allowance is made, in fixing the amount to be paid over under section 170, for the tax which the payer would have been entitled (under section 169 of the same Act) to deduct and retain if the interest etc. had been paid at the due dates.

If hardship would otherwise be caused, a similar allowance is made in the case of a trust or other non-trading institution paying interest etc. out of the taxed income of past years.

26. Interest paid in full by a trader to a building society

Where, for the purposes of his trade, profession or vocation, a person pays annual interest in full to a building society which has entered into the special arrangements under section 445 of the Income Tax Act, 1952, but his income is not sufficient to enable relief to be given under that section in respect of the whole of the interest, the amount in respect of which relief cannot be given is treated for the purpose of carry-forward relief as if it had been assessed under section 170 of the Income Tax Act, 1952.

27. Double taxation relief: United Kingdom branch of non-resident bank

Tax credit relief under double taxation agreements is available under the law only to persons who are resident in the United Kingdom. Where, however, the United Kingdom branch of a non-resident bank has in the past received Dominion income tax relief on its investment income, but owing to the conclusion of a double taxation agreement such relief is no longer available, tax credit relief is given on the same income as though the bank were resident in the United Kingdom.

28. Double taxation relief: building society interest

Paragraph 5 of the Sixteenth Schedule to the Income Tax Act, 1952, provides that credit for overseas tax shall not exceed the sum arrived at by charging the doubly taxed income at a rate (generally known as the 'effective rate') ascertained by dividing the United Kingdom income tax payable by the taxpayer for the year by his total income for the year. Interest received from a building society which has entered into the special arrangements under section 445 of the Income Tax Act, 1952, is left out of account in calculating the effective rate.

29. Double taxation relief: alimony etc. under United Kingdom Court order or agreement: payer resident abroad

Where alimony or small maintenance payments are paid under a United Kingdom Court order or agreement, the income arises from a United Kingdom source regardless of the country or residence of the payer. Notwithstanding that the source is in law a United Kingdom source, relief by way of credit is, however, allowed where:

(*a*) the person making the payments has left the United Kingdom and become resident in an overseas country;

(*b*) the payments are made out of that person's income in that country and are subject to tax there;

(*c*) United Kingdom income tax if deducted from the payments is duly accounted for; and

(*d*) the payee is resident in the United Kingdom and effectively bears the overseas tax.

30. Overseas tax for which credit is not allowable

The tax paid in a country outside the United Kingdom by a United Kingdom resident on business profits arising there is, in general, treated as an expense of the business if credit against the United Kingdom tax on those profits is not allowable or the right to forgo credit is exercised.

31. Double taxation relief: income consisting of royalties and 'know-how' payments

Payments made by a person resident in an overseas country to a person carrying on a trade in the United Kingdom as consideration for the use of, or for the privilege of using, in the overseas country any copyright, patent, design, secret process or formula, trade-mark or other like property may in law be payments the source of which is in the United Kingdom, but are nevertheless treated for the purpose of credit (whether under double taxation agreements or by way of unilateral relief) as income arising outside the United Kingdom except to the extent that they represent consideration for services (other than merely incidental services) rendered in this country by the recipient to the payer.

32. Double taxation relief: credit for underlying tax

(*a*) United Kingdom companies' non-resident subsidiaries.

Where a United Kingdom company controls not less than one-quarter of the voting power in an overseas company, then in computing the credit available to the United Kingdom company in respect of dividends (of any class) from the overseas company tax payable by the overseas company, whether in the country of its residence or a third country, is taken into account. A company is deemed to control not less than one-quarter of the voting power in

another company if a third company having such control also controls not less than one-half of the voting power in the first company. In practice the credit also takes account of tax paid in the same or another country by a subsidiary of the overseas company (i.e. by a sub-subsidiary of the United Kingdom parent company) provided the same condition as to control is satisfied; and similarly for tax paid by subsidiaries at further removes from the United Kingdom parent.

(*b*) Overseas dividends generally.

Where a United Kingdom resident receives dividends on a holding of ordinary shares (including the participating part of participating preference dividends) in a company resident in an overseas country which is within the Commonwealth, or with which the United Kingdom has an agreement which so provides, the credit legally due against United Kingdom tax chargeable takes into account, in addition to any direct tax on the dividends, the indirect tax payable by the company in the other country on its profits. In practice if the company's profits include dividends on such a holding in a second company resident in the same or another overseas country, both the direct tax charged on the dividends and the indirect tax payable on the profits of the second company are also taken into account, provided that all the countries concerned are of the type referred to; and similarly for tax relating to dividends and profits of companies at further removes along any chain of shareholdings.

33. Bank interest etc. received by charities

The exemption from tax under Schedule D in section 447 (1) (*b*) of the Income Tax Act, 1952, in favour of charities extends to yearly interest or other annual payments forming part of the income of a charity. In practice this exemption is extended to bank interest, whether yearly or not, received by charities and to discount on Treasury Bills held by charities.

34. Income of Roman Catholic religious communities or of their members

The precise legal position as regards the title to such income, which is in fact treated by the community as belonging to the common fund, is often difficult to ascertain. In practice in the case of certain Orders (such as those engaged in charitable work, among the poor) relief is given under the provisions relating to charities; in the case of the Contemplative Orders and other Orders which are not in law capable of being regarded as charities, a proportion of the aggregate income not exceeding £110 per monk or nun (as representing the amount applied for the maintenance of each individual) is regarded as his or her income for the purpose of relief from tax.

35. Loan and money societies

A loan or money society is granted such relief as will restrict the net income tax liability to tax on the amount of dividends and interest paid or credited to members or depositors having taxable income, less, as regards members, an appropriate deduction for management expenses contributed by them. The tax is calculated at the reduced rates on dividends and interest accruing to members and depositors who are liable only at the reduced rates.

36. Holiday clubs and thrift funds

Clubs formed annually for the purpose of providing facilities for saving towards holidays are allowed such relief as will restrict the net income tax liability to tax on the proportion of liable income applicable to members having taxable income. Similarly, in the case of a thrift fund the relief allowable is such as will restrict the net income tax liability to tax on the amount of profits or interest paid or credited to members having taxable income. The tax is calculated at the reduced rates on income accruing to members liable only at those rates.

37. Registered trade unions

The exemption of registered trade unions under section 440 (2) of the Income Tax Act, 1952, from income tax under Schedules C and D in respect of interest and dividends applicable and applied solely for the purposes of provident benefits is in practice extended to rents. It is also extended to interest, dividends and rents of any year in so far as they are actually applied to provident benefits within that year (although not 'applicable solely' to such benefits).

SURTAX

1. Deduction for mineral rights duty

Payments of mineral rights duty are not allowable as deductions in computing total income for taxation purposes. For surtax purposes, however, an individual whose income includes mineral rents and royalties is allowed a deduction in computing his total income, in respect of mineral rights duty borne by him on the rents etc. receivable for that year. The deduction allowed is 1*s* in the £ of the gross mineral rents and royalties receivable (less any amount on which repayment of income tax in respect of management expenses has been made under section 181 of the Income Tax Act, 1952).

2. Administration of estates: deficiencies of income allowed against income of another year

Under section 419 of the Income Tax Act, 1952, a person who has an absolute interest in the whole or part of the residue of the estate of a deceased person is treated, during the administration period, as entitled to the residuary income of the estate (i.e. the gross income less certain deductions, e.g. in respect of annuities payable) or to the appropriate proportion thereof. If for a particular year the deductions allowable are greater than the gross income of the estate, the excess is allowed as a deduction in computing the net income of the preceding or succeeding years.

PROFITS TAX

1. Directors' remuneration from director-controlled companies

Paragraph 11 of the Fourth Schedule to the Finance Act, 1937 (as amended by section 34 of the Finance Act, 1952, and section 33 of the Finance Act, 1959), lays down, in the case of director-controlled companies, certain limits on the amount of the remuneration of the directors (other than whole-time service directors not owning or controlling more than 5 per cent of the ordinary share capital) which is to be allowed as a deduction in computing the profits of such a company for profits tax purposes. In certain cases the limits depend on, *inter alia*, whether, for more than half the chargeable accounting period, there are two or more directors of the company (not being 'whole-time service directors') who are required to devote substantially the whole of their time to its service in a managerial or technical capacity. If a director works as such for more than one company he

is in practice regarded as falling within this definition in relation to that company which has occupied the largest fraction of his time during the chargeable accounting period if:

(a) he has worked substantially full-time for the companies as a whole for more than half the chargeable accounting period; and

(b) the time worked for the particular company under consideration amounts in the aggregate to more than half the full normal working hours of the chargeable accounting period.

2. Interest, in excess of investment income, paid by one overseas trade corporation to another in the same profits tax group

Where interest is paid by one overseas trade corporation to another and both companies are members of the same profits tax group, the interest, in so far as it exceeds the investment income of the paying company and therefore cannot be deducted in computing the profits of that company, is excluded in computing the profits of the recipient company.

INTEREST ON UNPAID TAX

1. Death of taxpayer before due date for payment of tax

Section 495 of the Income Tax Act, 1952, provides for interest (at 3 per cent per annum) to be charged on unpaid Schedule D tax and surtax where:

(a) the tax due on the assessment in question is more than £1,000, and

(b) payment is not made within three months of the date on which the tax fell due.

Where a taxpayer has died before the date on which the tax fell due and his executors or administrators cannot pay the tax before they obtain probate or letters of administration, the interest charge on the unpaid tax is abated to the amount (if any) which would have been charged if the tax had become due on the date on which probate or letters of administration are obtained.

ESTATE DUTY

1. Mourning

A reasonable amount for mourning for the family and servants is allowed as a funeral expense.

2. Roman Catholic religious communities

The property of Roman Catholic religious communities whose purposes are charitable is treated as trust property held for a charitable purpose even where there is no enforceable trust, with the result that estate duty is not claimed on the death of one of the nominal owners of the property.

3. *Inter vivos* gifts to charities

Where, at the donor's death, there is no existing fund which has been and continues to be directly benefited by the gift, the claim to duty is not pursued against the charitable institution.

4. Pensions etc. to police widows and dependants

Estate duty is not claimed on pensions and other payments made upon a policeman's death to his widow or dependants under the Police Pensions Act, 1921, or the Police Pensions Act, 1948.

5. Surrender or discharge of prior or legal rights in a Scottish estate

Where a surviving spouse, child or remoter issue, within five years before his or her death unconditionally surrenders or discharges certain rights in a Scottish estate (prior rights, *jus relicti*, *jus relictae* or *legitim*), estate duty is not claimed, although it could be claimed under the provisions of section 45 (2) of the Finance Act, 1940.

6. Disclaimer of certain rights under an English intestacy

Where the surviving spouse of a person dying intestate disclaims unconditionally his or her rights under English law to a net sum charged upon the intestate's residuary estate, estate duty is not claimed in connection with the death of the spouse although it could be claimed under the provisions of section 45 (2) of the Finance Act, 1940.

7. Loans to the Treasury free of interest

Certain British Government securities are exempt from death duties so long as they are in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom. In similar circumstances, exemption is allowed in respect of moneys loaned to the Treasury free of interest.

8. Premium savings bonds held by persons who die domiciled in the Channel Islands, the Isle of Man or Northern Ireland

Premium savings bonds held by persons domiciled in the Channel Islands, the Isle of Man or Northern Ireland are treated for estate duty purposes as property situated outside Great Britain.

9. Value payments under the War Damage Act, 1943

Where the payment of duty on value payments under the War Damage Act, 1943, is postponed under the terms of section 6 (3) of the Finance Act, 1894, the taxpayer is given the option of paying duty either:

(a) on the statutory basis, viz. on the value at the deceased's death of the sum received, with interest on the duty from the date of death; or

(b) on the actual sum received, with interest on the duty from the date of receipt.

10. Settled funds: allowance for, or repayment of, legacy or succession duty

Section 29 of the Finance Act, 1949, provides that where estate duty (at the new consolidated rate imposed by that Act) becomes chargeable for the first time on settled property by reason of its passing on the death of the life-tenant, an allowance for any legacy or succession duty already paid on the capital value of the settled property shall be given against the charge of estate duty. It is a condition of relief that the property has not previously passed on the death, after the commencement of the Act, of a person not competent to dispose. In practice, this condition is treated as satisfied where the only previous passing under the settlement after the commencement of the Act was one on the occasion of which no estate duty was payable.

11. Property held in joint tenancy etc.

Property which is so disposed of as to be enjoyed by persons in succession on death, although technically it may not be 'settled property' for estate duty purposes, is (except as regards cases falling within section 33 (1) of the Finance Act, 1954) treated in the application of relieving sections as 'settled property' where it is to the interest of the taxpayer so to treat it, e.g. property held in joint tenancy.

12. Release of life interest: aggregation

Where property becomes liable to estate duty under section 43 of the Finance Act, 1940, by reason of the disposition or determination of an interest limited to cease on the deceased's death, and the settlement under which that interest subsisted (not being a settlement made directly or indirectly by the deceased) came to an end before his death as regards the property in question, the property is treated for the purpose of section 33 (1) of the Finance Act, 1954, as 'settled property' or 'other property', whichever is in the interest of the taxpayer.

13. Civilian deaths in Malaya, Korea, Kenya and Cyprus

The relief from estate duty formerly granted by wartime legislation (which expired in October 1950) to the estates of civilians dying from injuries caused by the operations of war is applied to the estates of civilians dying from injuries caused by the operations in Malaya, Korea, Kenya and Cyprus.

14. Interest on estate duty on the proceeds of sale of timber

Section 9 of the Finance Act, 1912, fixed the rate of interest on estate duty on the proceeds of sale of timber at 3 per cent. In practice interest is charged at 2 per cent, which is the current rate of interest on estate duty generally.

15. Sale of controlling shareholdings

Where the same person has to bear estate duty on the value of shares and debentures to which section 55, Finance Act, 1940, applies, and any income tax payable by virtue of section 22, Finance Act, 1960, on a sale of those shares or debentures, so much of the estate duty may be repaid as is attributable to the income tax paid *or* to the income tax that would have been incurred had the shares or debentures been sold at the time of the deceased's death for their estate duty valuation, whichever is the less.

16. Agricultural property

For the purposes of the reduced rate of estate duty payable on the agricultural value of agricultural property, buildings used in connection with the intensive rearing of livestock on a commercial basis for the production of food for human consumption are treated as 'agricultural property', and 'husbandry' is interpreted as including any method of such intensive rearing of livestock.

STAMP DUTIES

1. Stamp allowance on lost documents

Allowance of the stamp duty on lost documents is made either by repayment, where replicas have been stamped, or by free stamping of the replicas.

2. Stamping of replicas of documents which have been spoilt or lost

Where the stamp duty is allowed on a document because it has been spoilt or lost and replaced by a replica but the duty has been increased so that the amount to be impressed on the replica is more than the amount allowable on the original, the additional duty is impressed free of charge.

3. Group life and pension policies

Documents which assure to the members of a fluctuating body of unnamed persons (e.g. all the employees of a company) capital sums on death before retirement, and/or pensions on retirement are assessed to stamp duty on the total at risk in one sum instead of on the individual amounts. No further duty is charged if a member withdraws without taking benefit and a new member enters in his place and takes a similar benefit, except in the case of a group pension policy under which each premium paid in respect of a member purchases a separate deferred annuity.

4. Partial release of mortgage

The correct duty is 10*s* deed duty, but *ad valorem* duty at 6*d* per cent is accepted if such duty be less than 10*s*.

5. Transfer and reconveyance of collateral security

The correct duty is 6*d* per cent. The practice is to limit the duty to 10*s* if the transfer of the original security is duly stamped.

6. Transfers of stock issued by the Electricity Board for Northern Ireland or the Ulster Transport Authority

Transfers of stock issued by the Northern Ireland Electricity Board or the Ulster Transport Authority, which are exempt from stamp duty in Northern Ireland, are treated as exempt from stamp duty in Great Britain if the stock is not registered in Great Britain.

Reciprocal treatment is given by the Northern Ireland Government to transfers of stock issued by the nationalized industries in Great Britain which are exempt from stamp duty in Great Britain.

NOTE

I. LAPSED CONCESSIONS

(*a*) In addition to those mentioned on page 189 of the 104th Report and page 212 of the 107th Report, the following concessions listed in the 103rd Report have been omitted from the above list:

Income Tax

No. 1. *Agricultural depression.*
No. 3. *Lost rent.*
No. 31. *Charities exempt from charge to income tax, Schedule D, Case VI – short leases.*
These three concessions have lapsed as a consequence of the abolition of Schedule A tax by the Finance Act, 1963.

Profits Tax

No. 2. *Determination of net relevant distributions to proprietors*
This concession lapsed as a consequence of the introduction of a flat rate of profits tax by the Finance Act, 1958.

Estate Duty

No. 2. *Duty payable in Commonwealth countries.*
No. 16. *Probate fees paid in India and Pakistan.*
These two concessions are obsolescent; section 29 of the Finance Act, 1962, gives statutory relief for deaths after April 9th, 1962.
No. 7. *Special contribution attributable to gifts* inter vivos.
This concession is obsolescent; the charge in respect of which it gives relief was imposed as long ago as 1948.

Stamp Duties

No. 8. *Transfers of stock issued by local authorities in Northern Ireland.*
This concession lapsed as a consequence of the halving by the Finance Act, 1963, of the rate of stamp duty applicable to transfers generally.

II. CHANGES IN CONCESSIONS

(*a*) The income tax concession on maintenance of property, listed as No. 5 in the 103rd Report, has lapsed in part as a consequence of the abolition of Schedule A tax and the revised version of the part which continues in operation is set out above as No. 6.

(*b*) Paragraph (*b*) of income tax concession No. 19 on expenses allowances and benefits in kind embodies paragraphs (*b*) and (*c*) of the concession listed as No. 18 in the 103rd Report. The wording has been amended so as to bring out more clearly the circumstances in which the concession is applicable.

(*c*) Paragraph (*a*) of the income tax concession on double taxation relief, listed as No. 40 in the 106th Report and set out above as No. 32, has been revised to take account of the provisions of section 16 of the Finance Act, 1964.

(*d*) Stamp duties concession No. 3 has been amended and the revised version is set out above.

III. NEW CONCESSIONS

No new concessions came into operation in 1964.

Taxation Case

A full report of the case summarized in these columns will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'.

In re Kirkwood, Public Trustee (Lyle's Trustee) *v.* C.I.R.

In the House of Lords – December 15th, 1965

(Before Lord GUEST, Lord MORTON OF HENRYTON, Lord UPJOHN, Lord DONOVAN and Lord PEARSON)

Estate duty – Contingent share of residue – Deed of variation – Discretionary trust – For specified period or a lifetime – Death of a discretionary beneficiary – Whether a passing – Change of title – Change of a group of beneficiaries – Whether a resettlement – Whether a recasting of trusts – Whether a passing after an interval – Whether a passing by reference to the death – Finance Act, 1894, sections 1, 2 (1) (b), 22 (1) Ceylon Estate Duty Ordinance 1957, sections 5, 7, 8.

The testator divided the residue of his estate into three shares for his children and their issue. One share (the Kirkwood share) was settled for the benefit of his daughter, so that it should be held during her life on discretionary trusts for the daughter, her children or other issue, his two sons-in-law and the children or remoter issue of another relative. After the death of the daughter the capital and income of the Kirkwood share was to be held in equal shares for her children on attaining 21 years of age or being a daughter attaining that age or marrying.

The daughter had three children, who each became contingently entitled to one-third of the Kirkwood share on the death of their mother. One of the children, a son, made a deed of variation on July 17th, 1961, in favour of the same discretionary class for the period of seven years from the date of the deed or the lifetime of the daughter, whichever was the longer. The son released to the trustees all the income of his reversionary share; and the trustees were to stand possessed of that share during the trust period for the benefit of members of the discretionary class as the trustees thought proper; and subject thereto the son's share was to be held in trust for him absolutely. The deed also directed that after the death of the daughter, and at the son's written request, the trustees might transfer or pay any part of the share to him, or apply it for his advancement or otherwise for his benefit.

The testator's daughter died on July 28th, 1961, and estate duty was claimed on her death in respect of the one-third share of the Kirkwood share to which the deed of variation applied. The trustees contended (i) that as the daughter was but one of a numerous discretionary class, there was no passing on the occasion of her death, nor any cesser of an interest thereon; (ii) that the effect of the deed of variation merely affected the son's title to his share of the discretionary trust, and there was no change of possession. The Revenue contended that the effect of the deed of variation was to set up a discretionary trust for a different class as compared with the class constituted by the testator's will; and that notwithstanding the specified period of seven years in that deed there was a passing on the death of the testator's daughter or after a period ascertainable only by reference to that death.

Held (confirming the decision of the Court of Appeal (Lord Donovan dissenting)): the effect of the deed of variation was to create a new trust of the grandson's share from the date of their mother's death to July 17th, 1968; that there was a passing on the mother's death under the Finance Act, 1894, section 1; alternatively, an interest arose or was created on the mother's death for the purposes of section 2 (1) (*b*).

Finance and Commerce

Earnings on assets

'WE have always considered that the ordinary shareholder is primarily concerned with the earnings we achieve on the assets he has contributed', writes Mr Owen Aisher in his statement with the accounts of The Marley Tile (Holding) Company Ltd. And the 'thinking' shareholder is, or at least should be, concerned, as Mr Aisher says, with earnings achieved on assets, for the worth of his equity stake depends on the full and efficient employment of assets. Whether or not the many 'unthinking' shareholders appreciate the point is another matter.

But for those who do, the Marley Tile company provides sound service by translating the group's figures for the past five years into terms of 35 per cent corporation tax and dividends paid gross. The figures are included in this week's reprint of the company's accounts.

The 'figure-minded' may care to do the arithmetic needed to put the table on a 40 per cent corporation tax basis, but the 35 per cent exercise shows the earnings ratio to have risen from 11·4 per cent to 16·2 per cent over the six years and that is a solid enough performance.

Marking time

The year under review, it will be seen, was the first year for a considerable period of virtual marking time in earnings. Mr Aisher points out that the profits of 1965 include those of Concrete Products of Ireland at £310,000. From 1958 Marley held a one-third interest in the Irish company, which makes Marley roofing tiles and building blocks, and markets other Marley products.

In January 1965, the Irish company bought the share capital of Chadwicks, Dublin, one of the biggest builders' merchants in Ireland. A public offer was made of some 25 per cent of the share capital and at the same time Marley Tile bought from the Chadwick family – previously the majority shareholders in Concrete Products of Ireland – additional shares in that company to give Mar cent controlling interest. Note 6 to the accour the Marley capital issued in connection with th

The marginal increase in Marley's own considered 'not unsatisfactory' under economi which slowed down the rate of new building which Marley partly, but not by any mea depends. The expenditure of over £6 million on ments in fixed assets, stocks and debtors is, indication of confidence in future expansion in

Trade investments

Reverting to the Concrete Products of Irel the former minority holding in this compa main reason for an intention, reported by the year ago, to revalue Marley's trade investme stantial part of the surplus the directors then l was in respect of this holding but the compa subsidiary, and consolidated.

For the time being the directors are content opinion that the trade investments now helc nearly twice the value shown in the group b: 'but it is not practicable to reflect this revalu accounts'.

The Marley accounts themselves are i presented. The group balance sheet on a 'Sour and 'Employment of funds' basis covers a dc page opening, and the use of a feint ruling o carries the eye from narrative to figures.

The following double-page opening has th loss account to the left and the parent balance right. In addition, there is a flap-page containir The first two notes concern the profit and loss can be read immediately in conjunction with tl The use of the flap-page also allows reference to sheet notes without turning pages to and fro.

Flap-page

C. G. SKIPPER (HOLDINGS) LTD company to use the flap-page syster coincidence, the company's accounts have the s make up as Marley's – light grey paper, black current figures and greeny-blue for the com match the ruling.

Skipper's accounts go one better than Marl use of a flap on each side of the normal do opening, but the opened four-page spread coul better used than by giving over half of it to company balance sheet which has nine items o side and a mere four on the other. The flaps, wh reveal the directors' report and the profit and l

There are only three notes to the account hardly good presentation, therefore, that a pag turned back and one of the flaps opened to find items to which the notes refer. With all that s there could easily have been a better arrangen

Another point is that when the right-hand fl in and the left flap out, the view is given of balance sheet and the consolidated profit and l the group balance sheet being hidden. The othe would have been preferable.

THE MARLEY TILE (HOLDING) COMPANY LIMITED

FINANCIAL REPORT 1965

CORPORATION TAX The table below shows what effect corporation tax (at 35%) would have had on earnings and retentions if applied over the last five years.

	1961 £'000	1962 £'000	1963 £'000	1964 £'000	1965 £'000
Profit after corporation tax available to ordinary shareholders	1,071	1,436	1,748	2,446	2,785
Ordinary dividends gross	788	945	945	1,513	1,839
Cover for gross dividend	1·3	1·5	1·8	1·6	1·5
Retentions under corporation tax	283	491	803	933	946
Retentions under old system of tax	371	546	813	918	1,046
Ordinary share capital and reserves at 31st October	9,376	9,886	13,971	14,887	17,199
Net earnings as percentage of ordinary capital and reserves	11.4	14.5	12.5	16.4	16.2
Market value of ordinary shares at 31st December (1965 31st October)	19,438	25,186	36,911	44,147	45,048
Ratio of market value to net earnings	18.1	17.5	21.1	18.0	16.1

NOTE: *The profit figures quoted above are after making adjustments for preference dividends and minority interests and the charges for corporation tax take capital allowances into account.*

THE MARLEY TILE (HOLDING) COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st OCTOBER 1965

	Notes	1965 £	1965 £	1964 £	1964 £
GROUP PROFIT BEFORE TAXATION	1		4,081,292		*3,612,755*
Deduct:					
Taxation					
United Kingdom	2	911,889		*1,657,765*	
Overseas		300,187		*141,559*	
			1,212,076		*1,799,324*
GROUP PROFIT AFTER TAXATION			2,869,216		*1,813,431*
Deduct/Add:					
Profit/Loss (*less* tax) attributable to minority interest			59,993		*(46,364)*
PROFIT ATTRIBUTABLE TO THE HOLDING COMPANY			2,809,223		*1,859,795*
(or which £1,783,229 (*1964 £941,631*) has been dealt with in the accounts of the Holding Company)					
Deduct:					
Dividends *less* income tax					
6½% Cumulative Preference		14,473		*14,930*	
Ordinary: Interim 6%		324,067		*278,010*	
Final, as proposed, 14%		756,156		*648,691*	
			1,094,696		*941,631*
RETAINED PROFIT: for the year			1,714,527		*918,164*
for previous years			3,547,136		*2,628,972*
RETAINED PROFIT CARRIED TO CONSOLIDATED BALANCE SHEET			£5,261,663		*£3,547,136*
Retained by:					
The Marley Tile (Holding) Company Limited			3,797,145		—
[illegible]			[illegible]		*3,547,136*

THE MARLEY TILE (HOLDING) COMPANY LIMITED

AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

31st OCTOBER 1965

SOURCES OF FUNDS	Notes	1965 £	1965 £	*1964* £	*1964* £
SHARE CAPITAL OF THE HOLDING COMPANY	6		9,568,392		*7,939,970*
CAPITAL RESERVES					
Share premium account of the Holding Company	6	481,986		—	
Capital redemption reserve fund		200,000		*200,000*	
Other capital reserves	6	2,062,374		*3,575,356*	
			2,744,360		*3,775,356*
REVENUE RESERVES					
Retained profit	7		5,261,663		*3,547,136*
MARLEY SHAREHOLDERS' INTEREST			17,574,415		*15,262,402*
MINORITY SHAREHOLDERS' INTEREST			844,403		*298,779*
FUTURE INCOME TAX			—		*1,311,104*
LOAN CAPITAL					
6¾% Debenture Stock 1977/79		1,000,000		*1,000,000*	
6¼% Debenture Stock 1983/88		4,000,000		*4,000,000*	
Mortgage loans		613,430		*652,998*	
Bank loans (£443,418 secured; *1964 £394,169*)		1,289,762		*805,015*	
			6,903,192		*6,458,013*
			£25,322,010		*£23,330,298*

EMPLOYMENT OF FUNDS	Notes	1965 £	1965 £	*1964* £	*1964* £
NET CURRENT ASSETS					
Current Assets					
Stock and work in progress	3	7,478,746		*6,510,182*	
Trade debtors and prepayments		10,527,880		*9,426,049*	
Balances at bank and cash in hand		707,936		*669,025*	
			18,714,562		*16,605,256*
Deduct:					
Current Liabilities and Dividends					
Bank overdrafts (£1,478,526 secured; *1964 £860,743*)		2,423,950		*1,424,243*	
Trade creditors and accrued expenses		6,951,138		*6,308,598*	
Current taxation	2	2,817,209		*1,383,960*	
Dividends of the Holding Company (*less* income tax)		759,737		*652,423*	
			12,952,034		*9,769,224*
			5,762,528		*6,836,032*
FIXED ASSETS	4				
Freehold land and buildings		6,214,451		*5,379,317*	
Leasehold land and buildings		865,528		*702,968*	
Fixed and loose plant and vehicles		9,690,904		*8,215,452*	
House properties and estates		346,542		*203,067*	
			17,117,425		*14,500,804*
TRADE INVESTMENTS					
Unquoted shares at cost			726,635		*726,112*
			23,606,588		*22,062,948*
GOODWILL					
Premium on shares acquired in subsidiaries			1,715,422		*1,267,350*
			£25,322,010		*£23,330,298*

O. A. AISHER
J. E. AISHER } *Directors*

THE MARLEY TILE (HOLDING) COMPANY LIMITED

AND ITS SUBSIDIARIES

NOTES ON THE ACCOUNTS

	1965 £	1964 £
1 GROUP PROFIT BEFORE TAXATION		
This is arrived at after adding:		
Income from trade investments	45,136	38,720
Interest receivable	27,211	33,717
And after deducting:		
Emoluments of the directors of The Marley Tile (Holding) Co. Ltd.		
Salaries, commission and pension fund contributions	186,956	173,286
Fees	Nil	Nil
Interest on loan capital	417,594	385,836
Interest on bank overdrafts	119,711	83,501
Auditors' remuneration and expenses	25,966	22,997
Depreciation of fixed assets	1,619,921	1,338,248
Losses on disposals of fixed assets	27,320	26,038

2 TAXATION

	1965 £	1964 £
The charge for United Kingdom taxation consists of:		
Corporation tax (at 35%)	1,098,278	—
Income tax	(186,389)	1,171,552
Profits tax	—	486,213
	£911,889	£1,657,765

The charge for corporation tax has been based on the profit for the year: it has been reduced by £255,000 (income tax and profits tax 1964 by £350,000) because of investment allowances on capital expenditure, and also by £75,000 (income tax and profits tax 1964 by £21,000) because other capital allowances exceeded the charge for depreciation in the accounts. The liability for corporation tax payable 1st January, 1967, viz. £1,098,278 is included with the figure for current taxation in the balance sheet.

3 STOCK AND WORK IN PROGRESS

These are stated at cost or net realisable value if lower.

4 FIXED ASSETS

These are stated partly at cost and partly at independent valuation on 1st November, 1962. By consent of the Board of Trade, the figures for depreciation include amounts provided by subsidiaries before acquisition by the group.

	1965			1964		
	Cost, etc. £	*Depreciation* £	*Net* £	*Cost, etc.* £	*Depreciation* £	*Net* £
Freehold land and buildings	6,694,971	480,520	6,214,451	5,710,270	330,953	5,379,317
Leasehold land and buildings	937,881	72,353	865,528	743,829	40,861	702,968
Fixed and loose plant and vehicles	13,971,863	4,280,959	9,690,904	11,148,744	2,933,292	8,215,452
House properties and estates	361,276	14,734	346,542	213,616	10,549	203,067
	£21,965,991	£4,848,566	£17,117,425	£17,816,459	£3,315,655	£14,500,804

Depreciation of the group's fixed assets at 31st October, 1965, will require to be provided in the future without relief from taxation to the following extent:—

	1965 £	1964 £
On assets which do not attract capital allowances and on the surplus arising on revaluation in 1962	4,177,000	4,040,000
On assets in respect of which capital allowances have in the past exceeded amounts provided for depreciation	1,922,000	1,357,000
	£6,099,000	£5,397,000

5 SUBSIDIARIES' ACCOUNTING DATES

The accounts of overseas subsidiaries are made up to dates between 30th June and 31st October in order to avoid delay in the preparation of the consolidated accounts.

6 SHARE CAPITAL AND CAPITAL RESERVES

(i) The issued share capital has been increased during the year by £1,628,482, being the capitalisation of £1,512,982 standing to the credit of capital reserves and £115,500 for shares issued as consideration for the purchase of shares in a subsidiary. These shares were issued at a premium of £502,425 against which expenses amounting to £20,439 have been charged.

(ii) 118,200 ordinary shares of 5/- each are under option to senior executives. The options, which were granted on 1st November, 1964, at a price, adjusted for the subsequent bonus share issue, of 23/1½ per share and for a term of seven years, may be exercised up to specified amounts in each of the last four years of the option period.

7 REVENUE RESERVES

(i) During the year subsidiary companies transferred revenue reserves to the Holding Company by way of dividends: of these dividends £3,108,612 related to previous years' profits.

(ii) If the profit, including preacquisition profit, retained by overseas subsidiaries at 31st October, 1965, were distributed additional taxation liabilities might arise amounting to approximately £150,000 (*1964 £312,000*).

8 COMMITMENTS FOR CAPITAL EXPENDITURE

The directors had approved at the balance sheet date additions to capital expenditure, not included in the accounts, amounting to approximately £1,949,000 (*1964 £1,858,000*) for which contracts had been placed to the extent of £718,000 (*1964 £704,000*).

9 CONTINGENT LIABILITIES

The Holding Company has guaranteed bank loans and overdrafts of £1,127,445 due by subsidiaries. Subsidiary companies in conjunction with other parties have jointly and severally guaranteed the bank overdrafts of associated companies to a limit of £129,740.

10 EXCHANGE RATES

Foreign currencies have been expressed in sterling at mid-market rates ruling at 31st October, 1965.

CITY NOTES

EQUITY sections of the stock-markets continue to maintain their strength, mainly as a result of institutional – and particularly insurance company – portfolio support. The unit trusts are still considerable equity buyers and are also successfully raising fresh funds at the rate of some £10 million a month.

The outstanding success of the Triplevest investment trust launching is also a pointer to the potential extent of equity support. Money is calling the equity tune at the moment and even a factor like the effective £15 million drop in I.C.I.'s profits was shrugged aside on the grounds that the result was no worse than anticipated.

Whether or not General Election doubts will have any impact on equity sentiment is debatable. There is little sign of adverse effect on that score at present. Neither does the prospect of continued pressure on industrial profit margins seem to perturb investment opinion to any great degree. The main equity factor is weight of money which, it is persistently argued, will force equities on to a lower yield basis irrespective of basic economic or industrial trends.

The pressure on interest rates – as indicated in a further rise in the Treasury bill rate – has kept the gilt-edged market in check but interest level doubts do not seem to affect current equity calculations.

* * * *

ONE of the broadest-based schemes for linking stockbrokers to a central computer system is planned to be brought into operation next year. The system will be operated by a company named Centre-File which is a subsidiary of the Birfield group. A number of stockbroking firms have been collaborating with Centre-File in the setting up of the system. The service, it is anticipated, will be made available to a first group of five firms in Jun double that number by the end of t

* * *

THE M. & G. Group's introdu based on Friendly Society princ siderable success. After initial stro M. & G. say, are now attractin £100,000 a day. A point that M. & of stockbrokers recommending F clients. The emphasis M. & G. suitability for children has been ju of the bonds have been applied for time. M. & G. undoubtedly secu introduction of Family Bonds. A trust management group was toy Society aspect before the M. & G.

* * *

THE possibility of rising intere is finding reflection in the risin bill rate in London. The indicated r rates, however, has, as yet, found longer end of the gilt-edged marl municipal bond market. Local au being at least, do not appear to b the demand and supply position weighted at the supply end. The even so, cannot entirely be ignored rate pattern and its implications ma to other sectors of the money marke structure before long.

RATES AND PRICES

Closing prices, Tuesday, February 22nd, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Dec. 17 ..	£5	10s	3·74d%	Jan. 21 ..	£5	9s	0·33d%
Dec. 23 ..	£5	10s	5·88d%	Jan. 28 ..	£5	9s	8·03d%
Dec. 31 ..	£5	10s	5·08d%	Feb. 4 ..	£5	10s	1·22d%
Jan. 7 ..	£5	10s	5·20d%	Feb. 11 ..	£5	11s	3·91d%
Jan. 14 ..	£5	9s	9·73d%	Feb. 18 ..	£5	12s	1·90d%

Money Rates

Day to day ..	4⅜–5⅜%	*Bank Bills*	
7 days	4¼–5⅛%	2 months ..	5 15/16–6%
Fine Trade Bills		3 months ..	5 15/16–6%
3 months ..	7–7½%	4 months ..	5 15/16–6%
4 months ..	7–7½%	6 months ..	5 15/16–6%
6 months ..	7¼–8%		

Foreign Exchan

New York ..	2.80⅛	Fra
Montreal ..	3·01 25/32	Mil
Amsterdam ..	10·15 5/32	Osl
Brussels	139·37	Pari
Copenhagen ..	19·32 3/16	Zür

Gilt-edged

Consols 4% ..	60	Fun
Consols 2½% ..	38¾	Savi
Conversion 3½% ..	54⅛	Savi
Conversion 5% 1971	94 5/16	Tre
Conversion 5¼% 1974	93 5/16	Tre
Conversion 6% 1972	98¾	Tre
Funding 3½% 99–04	58 13/16	Tre
Funding 4% 60–90	95	Tre
Funding 5¼% 78–80	89	Tre
Funding 5½% 82–84	89 13/16	Vict
Funding 5¼% 87–91	92⅛	War

Corresponden

Results Speak for Themselves

SIR, – There is a growing number of representations to the Chancellor for a 'lower-end' exemption from capital gains taxation. It is therefore of interest to recall your own leading article of January 9th, 1965 [*sic*] at which stage there was ample time to incorporate such an exemption in the then unborne Finance Bill. You said:

> 'It would at least be some consolation if the manpower in the profession and the Inland Revenue were conserved by exempting from the gains tax up to, say, £500 on any one transaction, with a maximum exemption of £2,000 in any tax year. This would keep outside the net a vast number of persons of modest means who try to conserve their resources by sensible investment of their hard-earned savings.'

If professional bodies threw in with determination their potential weight in favour of practical measures of that kind they would have less need to spend vast sums on the modern futility of 'public image'.

Yours faithfully,

F.C.A.

Redemptions of Bonus Issues

SIR, – In connection with the article headed 'Tax avoidance device fails' on page 146 of your issue dated February 5th, the last paragraph which refers to one of the effects of the Finance Act, 1965, is of concern to us in a particular case and it appears to us that, as it is worded, the paragraph indicates that more redemptions of bonus issues are caught by the Finance Act, 1965, than is in fact the case.

The relative provisions appear to be contained in Schedule II and paragraph I (1) (*c*) covers the issue of any redeemable share capital or security. It appears to us that, before the redemption of a bonus issue is caught by the provisions of the Finance Act, 1965, the issue itself would require to have been made after April 5th, 1965. We shall be glad to know whether or not your leader writer agrees with this view.

Our particular interest in this point arises in the case of a company which is a close company and which in 1955 made a bonus issue of debentures which were sold to an insurance company by the trustees of a deceased shareholder in order to raise funds to pay death duties. The whole of this debenture issue is held by the insurance company and it is clear that the interest on it will not be allowed as a charge for corporation tax purposes. We are, therefore, endeavouring to negotiate an early redemption of the debentures which is now well within the comp ability. Taken literally as it stands the parag to in your article could be read as meaning t pany would be liable to income tax on the equi up amount of the debenture issue which wou be disastrous but we do not think your leade to convey this very wide meaning.

Yours faithfull

SCOTT

[We confirm that if the bonus issue was April 7th, 1965, then as explained in a leading issue of July 17th, 1965, its redemption would tion. What we said on February 5th was that se Finance Act, 1960, would be rendered *large* these new provisions in this area of bonus issu

Education for the Profession

SIR, – There have been many articles publish education for the profession. The most recent, Bourn, would seem to be a fair summary of I should like, if I may, to make a few co regarding the article itself and omissions ther

The first is that the statement in the fou to the effect that the relatively small number is sufficient evidence that the high standards c conduct expected are being met, is a stateme not really stand serious analysis. One cannot jective evaluation of one's conduct on standa has set oneself.

Secondly, the Institute cannot, of its natur an examining body and not a teaching body would have to be independent of the profes absurd. Members of the Institute are, in e ing an examining committee. The same teaching the students. To claim otherwise wou the fact that the articled clerk is articled an justify the low salaries (or even premiums) p

One must examine on what is being taugh one must teach with a view to the examin principal cannot provide training in all parts c this is a reason, not for transferring articles, b the student as part of his tuition to other firm industry, for short periods.

Thirdly, it is hardly surprising if accountan little respect at a university when at G.C.E level it is a subject which can be taken, but recognized as sufficient of a discipline to be ir number of subjects which one must put for

ıs, universities

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ʀ, B.A., A.C.A.

by Mr A. M.
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is certainly no lack of enthusiasm in this college in dealing with the requirements of the accountancy student.

The figures quoted above indicate a steady development which is taking place in a particular area, but I have no doubt that many other major technical colleges in Britain can play an equally significant role, and will be well equipped to deal with any future developments in accountancy education.

Yours faithfully,
ARNOLD FRYER, F.C.A.,
Senior Lecturer in Accountancy,
Swansea. SWANSEA COLLEGE OF TECHNOLOGY.

A Problem of Finance

SIR, – I should like to invite the assistance of your readers in solving the following problem which has recently presented itself in another context.

X is an export agent with valuable contacts in Eastern Europe. He makes regular journeys to obtain orders, and his expenses amount to approximately 20 per cent of the value of orders obtained. His commission is 30 per cent on the same amount payable on deliveries. There is an average time lag of twelve months between orders and deliveries. The actual figures for 1964 and 1965 and the projected figures for 1966 and 1967 are given below:

	1964	*1965*	*1966*	*1967*	*Total*
	£	£	£	£	£
Invoiced deliveries on orders ..	—	200,000	600,000	1,500,000	2,300,000
Commissions ..	—	60,000	180,000	450,000	690,000
Expenses ..	40,000	120,000	300,000	600,000	1,060,000
Losses (and net cash outflow) ..	£40,000	£60,000	£120,000	£150,000	£370,000

The problem: how is X going to finance this business?

Yours truly,
KENNETH S. MOST, LL.B., F.C.A.,
Head, School of Accountancy,
SINGAPORE POLYTECHNIC.

Insurance Agency Commissions

SIR, – One of our clients, an insurance agent, is also a director of a building society. Perhaps your readers would care to comment on the propriety of his earning commissions arising out of insurance business placed by his society through the medium of his agency. Can this be treated in the same way as, say, the receipt of survey fees, or must it be regarded as unethical?

Yours faithfully,
CURIOUS.

In Parliament

Rating System

Mr L. M. LEVER asked the Minister of Housing and Local Government when he will introduce the changes to the present rating system; and what will be the general principles underlying such changes.

Mr CROSSMAN: The Bill which I expect to introduce in a few weeks' time will make some improvements in the present rating system. But the re-casting of local taxation must depend on the future structure of local government, and it is too soon to say on what principles it should proceed.

Hansard, February 2nd, 1966. Written answers, col 255.

Tax Allowances: Cost

Mr LUBBOCK asked the Chancellor of the Exchequer, what is the estimated cost to income tax and surtax in 1965–66 of marrried allowances, wife's earned income allowance, and additional allowances, respectively.

Mr MACDERMOT: It is estimated that for 1965–66 the excess of the higher personal allowance over the single allowance costs £505 million income tax, £6 million surtax, that the wife's earned income allowance costs £270 million and that the wife's additional set of reduced rates costs £65 million.

Hansard, February 2nd,, 1966. Written answers, col. 251.

Companies Act

Mr BRUCE-GARDYNE asked the President of the Board of Trade what has been the average length of time elapsing between the receipt by his Department of applications for the appointment of inspectors under section 165 of the Companies Act and action being taken upon them, whether by appointment of inspectors or by rejection or decision not to proceed, in each of the last five years.

Mr DARLING: On the basis of ten sample cases in each year, the average periods are calculated to be as follows:

	Appointment of inspectors weeks	*Rejection* weeks	*Not proceeded with by applicant* weeks
1961	26	8	4
1962	21	6	5
1963	21	6	6
1964	5	8	5
1965	6	4	4

Mr BRUCE-GARDYNE asked the President of the Board of Trade how many final reports by inspectors appointed under section 165 of the Companies Act are at present under consideration by his department; and, in each case, when the final report was submitted.

Mr DARLING: Five final reports of inspectors are under consideration by the Board of Trade. Three relating to three associated companies were received in July 1965, one relating to two associated companies in August 1965 and one in December 1965.

Mr BRUCE-GARDYNE asked the President of the Board of Trade, what was the average length of time elapsing between the appointment of inspectors under section 165 of the Companies Act and the receipt by his department of their final report during the ten-year period 1951 to 1960, and during the ten-year period 1956–66.

Mr DARLING: For the ten years 1951 to 1960, sixteen months one week; and for the ten years 1956 to 1965, fifteen months three weeks.

Mr BRUCE-GARDYNE asked the President of the Board of Trade how many applications for the appointment of Board of Trade inspectors under section 165 of the Companies Act are at present outstanding; and in each case what length of time has elapsed since the application was received.

Mr DARLING: Seven applications for the appointment of inspectors are outstanding. Two of these applications (both relating to associated companies) have been kept under review for nine months, and a third for eight months. The remaining four applications were received four weeks, three weeks, and, in two cases, one week ago. In none of these cases does it necessarily follow, from the fact of the Board's consideration, that the appointment of an inspector will be justified.

Hansard, February 4th, 1966. Written answers, col. 298.

Investment Allowances

Sir B. JANNER asked the President of the Board of Trade when he will announce details of the plan for investment allowances in respect of leased machinery; and what arrangements will be made to consult the firms principally concerned with such leasing, including Leicester firms.

Mr JAY: I hope to be able to make a further announcement before long. My department have already begun a series of consultations with industry on this subject.

Mr GOWER asked the President of the Board of Trade what is the estimated value of the new system of investment allowances to British industry in 1967–68; and what would have been the value of the previous system of investment allowances in that year had corporation tax not been introduced.

Mr JAY: Although no precise estimate is possible I expect Board of Trade expenditure on investment grants in 1967–68 to be of the order of £200 million. This will relate to eligible investment in the first nine months of 1966. The cost to the Exchequer of giving investment allowances in respect of the same period at a rate of 8s 3*d* in the £ income tax and 15 per cent profits tax would have been about £240 million.

Hansard, February 10th, 1966. Written answers, col. 119.

Stock Exchange Transactions: Tax Avoidance

Mr HAROLD WALKER asked the Chancellor of the Exchequer (1) if he will take steps to institute an inquiry into tax avoidance arising from stock exchange transactions; (2) what action he proposes to prevent any further incidence of tax avoidance by bond-washing; and if he will make a statement.

Mr CALLAGHAN: I am obliged to the Stock Exchange Council for sending to the Board of Inland Revenue a copy of the Report which led to the suspension of certain jobbers and brokers. I hope the action taken by the Council will lead to closer observation of the existing rules.

Nevertheless, I am considering

whether there is sufficient guarantee that the Revenue is guarded against loss, and if necessary I shall bring forward further legislation.

The deals in question disclose the possibility of tax irregularities; and the Board of Inland Revenue have begun a comprehensive inquiry into the position of firms and individuals whether inside or outside the stock exchange who have played any part in these or similar transactions.

It will be sometime before I can estimate how much tax has been lost and say what action can be taken to recover it.

Hansard, February 15th, 1966. Written answers, col. 199.

Income Tax: Assessment Appeals

Mr SHEPHERD asked the Chancellor of the Exchequer whether, in view of the fact that non-agreed assessme are now issued during the summ holiday months, he will agree to t duration of the appeal period bei extended from thirty to sixty days order to avoid the necessity of ap cations for extensions.

Mr DIAMOND: No. I do not thi that any general extension of the ti limit for appeals is called for.

Hansard, February 15th, 1966. W ten answers, col. 200.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS FRYER, SUTTON, MORRIS & Co, Chartered Accountants, of 5 London Wall Buildings, Finsbury Circus, London EC2, announce the retirement of Mr R. GULLIVER, A.C.A., from their firm which will be carried on by the remaining partners. Mr GULLIVER has taken up an appointment as an Assistant Technical Officer with The Institute of Chartered Accountants in England and Wales.

MESSRS PRICE WATERHOUSE & Co announce the admission to partnership of Mr P. L. AINGER, F.C.A., and Mr C. I. BROWN, A.C.A., both of whom have been members of the staff for several years. They will be resident at the London office.

Appointments

Mr Alasdair G. Barclay, C.A., has been appointed financial consultant of Humphreys Ltd, of Knightsbridge.

Mr J. H. Protheroe, A.A.C.C.A., A.I.M.T.A., has been appointed financial director of Avo (MI Group) a subsidiary of Metal Industries Ltd. Mr Protheroe was previously chief internal auditor of Metal Industries.

Mr A. H. McIlwraith, C.A., has been appointed deputy chairman of Miles Laboratories Ltd; his existing duties as joint managing director and as financial director – Europe, will continue.

Mr Gethin Wyndham John, F.C.A., has been appointed assistant chief accountant (finance and budgets) of the South Wales Electricity Board.

INCOME TAX: PERSONAL RETURN FORMS

The Board of Inland Revenue has announced that in the interests of economy the different kinds of forms calling for a return of an individual's income are to be reduced for future years from five to three.

Forms of the '12' series, which have in the past been issued to some employed persons, will be discontinued and replaced by the existing forms 11, 11A and P1.

Forms P1 will continue to be issued to the majority of employed persons but will in future be printed on light blue paper.

CONDITIONS FOR UNEMPLOYMENT BENEFIT TO BE REVIEWED

The National Insurance Advisory Committee is to consider whether additional conditions for unemployment benefit should be introduced for occupational pensioners who retire from their regular occupation before the minimum national insurance pension age (65 for men, 60 for women). It is known that numbers of those who retire on pension from their regular occupation before they reach the minimum pensionable age for national insurance purposes draw unemployment benefit for a considerable time, often until their entitlement is exhausted, and then continue to register at their employment exchange so that national insurance contributions may be credited to them up to minim pensionable age.

To qualify for unemployment be fit or credits, a claimant has to decl that he is available for suitable e ployment. If a suitable job is offe to him and he declines to accept without good cause, he is disqualif for unemployment benefit and cred for six weeks. In many areas, howev there are very few, if any, vacanc suitable for occupational pensione or even if there are, many employ prefer to have younger candidates such vacancies. It is thus often v difficult to test whether such claima are in fact genuinely available employment.

Critics of the present position h often expressed the view that m retired professional people, especi where they have gone to live in ru or coastal districts, have really left employment field and claim une ployment benefit and credits with real intention of taking another j These criticisms will no doubt considered by the Committee.

The Committee invite represen tions on this question. These should made in writing and sent bef May 16th, to the Secretary, Natio Insurance Advisory Committee, John Adam Street, London WC2.

THE INSTITUTE OF COST AN WORKS ACCOUNTANTS

President's Luncheon Party

The President of The Institute of C and Works Accountants, Mr Hodgson, F.C.A., F.C.W.A., gave luncheon party on February 23r 63 Portland Place, London W1. Th present were: Mr J. Bolton, D. Chairman of the Council, Br Institute of Management, Mr Basil Ferranti, managing director, In national Computers and Tabula

Ltd, Mr H. J. Furness, F.C.W.A.; a Past President of the Institute, Mr R. G. Hooker, managing director, Associated Fire Alarms Ltd, Mr C. F. Howell, F.C.W.A., A.M.B.I.M., Sir Frank Kearton, O.B.E., chairman and managing director, Courtaulds Ltd, Mr B. A. Maynard, M.A., F.C.A., F.C.W.A., Mr W. S. Risk, B.COM., C.A., F.C.W.A., a Past President of the Institute, Mr G. S. Steven, M.B.E., chairman and managing director, Allied Ironfounders Ltd, Mr W. T. Wells, Q.C., M.P., and Mr M. H. Walters, C.B.E., Secretary of the Institute.

SOUTH-WEST ESSEX CHARTERED ACCOUNTANTS GROUP

'The Revenue meets the chartered accountant' was the title of a successful meeting held on February 1st attended by a good number of group members and by representatives of the local tax Inspectorate. Problems *inter se* the Revenue and the accountant were discussed and useful criticism made on both sides. The function was such that both the members and the Inspectors of Taxes agreed that this should be an annual event.

The next meeting of the group is to be held on Tuesday, March 1st, at 'St Aubyns,' 34–36 Eastern Road, Romford, Essex at 6.15 p.m. for 6.45 p.m. when the topic will be 'Practice administration'. The speaker will be Mr E. Kenneth Wright, M.A., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales and the author of *The Development of an Accounting Practice*, who is attending so that members may ascertain what local improvements might be made in the conduct of practices from the knowledge and experience of the larger firm. It is also hoped to gain some idea of what the practitioner might usefully learn from the chartered accountant in industry and also to discuss consortia or other associations. Light refreshments will be available before the meeting.

Any chartered accountant interested in the above meeting or in the group's activities generally should communicate with the secretary, 187a South Street, Romford, Essex. (Telephone Romford 44728.)

MANAGEMENT CONFERENCES FOR GROWING FIRMS

The Industrial and Commercial Finance Corporation is to hold a series of conferences on 'Some problems of the growing firm' at various industrial centres in Great Britain from this month until the end of June. The conferences will provide an opportunity for senior executives of medium-sized companies to consider new management techniques and to discuss how they can best be used for the improvement of efficiency and to increase profitability.

Among the subjects to be covered will be 'Financial planning and company growth'; 'Budgetary control as a management instrument'; 'Electronic data processing and the control of stocks'; 'Management training for growing companies', and 'Case studies in productivity improvement'.

Further information regarding the conferences may be obtained from Mr Malcolm Craig, Industrial and Commercial Finance Corporation Ltd, 7 Copthall Avenue, London EC2.

CANADA'S ECONOMIC BOOM

Canadian economic expansion has now lasted five years – longer than any previous peacetime upturn in economic activity, according to a special report issued by the Organization for Economic Co-operation and Development. (H.M.S.O. Price 5*s*.)

Gross fixed asset formation, both public and private, the report states, has been the most dynamic element of demand in the past two years rising by 15 per cent in 1964 and 18·4 per cent in 1965. Programmes to encourage regional development were again strengthened last year. Until recently, business enterprises could claim accelerated capital cost allowances in development areas and new businesses were eligible for a three-year tax holiday in slower growth areas. In 1965 it was announced that this would be changed and the tax free exemption would be replaced by an outright grant based on investment on fixed assets. This is just one of the numerous Canadian policies which have played an important role in stimulating the country's economic growth.

The report reviews other main elements underlying the expansion in 1964 and 1965 and also discusses the balance of payments situation as well as some of the factors determining the structure and trend of Canada's external account with its large current account deficit and net capital inflow. Reference is also made to the policy problems likely to be faced this year. In its conclusions, the report states that the prospects are for continued expansion. At the same time, the maintenance of price stability will become more difficult now that a fuller utilization of resources has been achieved – manpower policies assume more importance in this context. As a supplement to existing policies, the authorities, says the report, may wish to consider whether the elaboration of price-wage 'guideposts' would constitute a useful measure in Canadian conditions.

ANNOTATED TAX CASES

Part 4 of Volume XLVI of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is now published and contains reports, with notes on the judgments, of the following cases: *Laidler v. Perry* (H.L.); *Duckering v. Gollan* (H.L.); *Hudson v. Humbles* (Ch.D.); *Inchyra v. Jennings* (Ch.D.); *C.I.R. v. Cleary* (Ch.D.); *Shop and Store Developments Ltd v. C.I.R.* (Ch.D.); *Iswera v. Ceylon C.I.R.* (P.C.); *British South Africa Co v. Varty* (H.L.); *In re Kilpatrick's Policies Trusts* (Ch.D.).

The annual subscription is 70*s* post free and the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

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ON OTHER PAGES

Interest Rate Prospects

OPINIONS on the efficacy of interest rate changes as a means of regulating the economy vary widely; the Radcliffe Committee on the Working of the Monetary System was, for example, extremely critical of the use of Bank rate as an economic regulator. Public concern with interest rate changes derives from rather different considerations, more especially, the effect on the price of loans to home buyers.

For some time past the building society movement has been discussing the pros and cons of raising their present lending rate of 6¾ per cent. But for Government pressure and an influx of new funds into the societies towards the end of last year, a rise could hardly have been avoided. Even with the current flow of new money and lending at a record level, operating margins are tight. Unless the CHANCELLOR abates his demands on the societies, a further increase seems probable. New pressure on the lending rate has been provided by Mr CALLAGHAN's announcement of the new Savings Certificates, since these will certainly divert some funds from the building societies.

Still less will the Government's new proposals to help home buyers enable the societies to keep rates down. The decision to subsidize the home-buyer in the lower income bracket will stimulate demand for loans, while the Government's intention to encourage the societies to make relatively larger advances to borrowers must exert an even more marked effect on house prices.

The answer to the problem of home ownership is to be found neither in the ruling rates of interest nor on any current limitation of advances. It is the simple fact that there is still an insufficient supply of housing to meet current demand and, if potential demand is henceforth to be stimulated by Government policies, then new buyers will find themselves squeezed from two directions. First, house prices will be forced up, and second, as prices rise and the demand for loans increases, so the need for loans will tend to outstrip the supply. Thus interest rates will be pushed still higher and a larger Government subsidy will be needed.

If the Government intends to help the private buyer as well as the prospective council-house tenant, then it will have to ensure a much larger allocation of scarce capital to housing than is at present contemplated. Capital is in short supply and with the trend of taxation upward, any substantial increase in private-sector saving seems unlikely. On the other hand, it will be a long time before the supply of high-yielding bonds dries up! The rate of interest is one price which cannot be fixed for long.

Current Affairs

Institute's Advanced E.D.P. Conference at Cambridge

A SIGNIFICANT step forward has been taken this week by The Institute of Chartered Accountants in England and Wales with the holding of its first advanced electronic data processing conference at Trinity College, Cambridge, under the chairmanship of Mr L. W. Robson, F.C.A., a member of the Council of the Institute and Vice-Chairman of the Courses Committee.

Specially designed to promote the exchange of ideas on the rapid developments now taking place in the area of electronic data processing, the conference – which opened on Tuesday and finishes today (Saturday) has undoubtedly shown the Institute's awareness of the need for members to consider and examine, together with non-member specialists, the problems and effects of new computer techniques.

The scope of the conference is illustrated by the wide subject-matter of the eight papers presented; they included: 'Current concepts in the use of computers, their implications and development', by Mr A. B. Toan, jun., C.P.A.; 'The use of current computer concepts in inventory management and other management role techniques', by Mr B. E. Friend, F.C.A.; 'The use of computers and the role of management science in planning business operations', by Mr A. F. Gawler, J.P., F.C.A.; 'The place of the computer in the management structure and its operating efficiency', by Mr D. W. Hooper, M.A., F.C.A.; 'The use of the computer in the audit of computer systems', by Mr L. W. Shaw, B.SC., F.C.A.; and 'Peering into the future at the probable impact of total information systems and real time processing on the way businesses are controlled', by Mr F. Kaufman, C.P.A.

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Guidance on Investment Incenti

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(2) Grants will be paid to the lessor who will obligation to notify the Board of Trade i ment in question ceases to be used for t or in the place, in respect of which th given. The lessor will be liable to repay such circumstances.

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The possibility of extending the scheme to some classes of plant and machinery when lease shorter periods than three years is still under sideration. It was clear, however, stated the Pres of the Board Trade, that there would have t

adequate safeguards against diversion to use for non-qualifying purposes, and a further announcement will be made.

The White Paper stated that the Board of Trade will have power to impose conditions on the making of investment grants and to secure information and such undertakings as may be necessary to avoid abuse. It is not, however, the intention that any conditions other than those necessary for these purposes should be attached to grants. For instance it will normally be a condition of payment that the recipient should notify the Board of Trade of any disposal (or change from qualifying uses) of an asset within a given period; and there will be power to secure repayment of the grants in certain circumstances. But the grants will not, for example, be made conditional upon whether machinery is used for manufacturing one kind of article rather than another. The Board of Trade have stated that the period within which these conditions will apply will be three years from the date of acquisition of the plant or machinery.

These details apply only to plant and machinery; special arrangements will have to be made to deal with ships, hovercraft and computers and these, the Board of Trade say, will be announced as soon as possible.

Record Pension Funds

POST-WAR expansion of private pension schemes and their members' increasing awareness of the need to protect the accumulated funds against the forces of inflation, have made the private pensions funds one of the most important influences in the investment market. The full extent of the magnitude of these funds is not always appreciated, but an article in last week's issue of the *Board of Trade Journal* reveals that net investment in the fourth quarter of 1965 by private pensions funds totalled £87 million – the highest quarterly total recorded since the official statistics were introduced in 1963.

The striking feature of the fourth-quarter figures is the continuing attraction for these funds of the current flood of company debentures. During the quarter almost £34 million was invested in debentures compared with £27 million in equities, although over the year 1965 the net investment in equities of £102 million just exceeded the total absorbed by debentures, i.e. £94 million. In that year, private funds' investments increased by £274 million – an increase of £35 million over 1964.

Net purchases of Government securities amounted to £55 million in 1965, and to this sum may be added a further £20 million invested in local government securities. This experience contrasts markedly with the policy of the funds during 1963 and 1964, when there was a net disinvestment in Government bonds, although in 1964 there was an increase of some £4 million in holdings of local government securities.

Perhaps the most interesting aspect of the quarterly analyses is that despite the continuing uncertainties confronting investors during the past twelve months, the amount of cash and other short-term assets held by pension funds fell over the year. This, like the revival in the interest for gilt-edged, undoubtedly owed much to the rising and attractive yields on Government paper.

Stock Exchange and Information

SPEAKING in Edinburgh last week at the Investment Conference of the Edinburgh Junior Chamber of Commerce, Mr R. F. M. Wilkinson, Chairman of the London Stock Exchange, spoke of the interest of the stock exchange in fuller disclosure of information by companies.

He said that they were prepared to go beyond the requirements of the law in this matter and they welcomed the Companies Bill at present before Parliament. They favour initial and regular publication of the fullest information by companies quoted on the stock exchange.

The question of directors' transactions, he went on to say, has received a good deal of publicity and the stock exchange is considering introducing a requirement for directors of quoted companies to publish at regular intervals details of their dealings in the ordinary shares of their companies. Past turnover figures in the case of new issues is also being considered. Finally, whatever contacts brokers and institutions may have in obtaining information by visiting companies, and this is considered a most useful practice, it is no substitute for relevant information being made immediately available to the market.

Views on the Economy

THE appearance of three major economic publications within the space of a few days offered an opportunity for comparing their assessments of the state of the economy. In the event, the authors of the *London and Cambridge Economic Bulletin* as well as those of the National Institute's *Economic Review* seem to be as devoid of new ideas as economic observers, although they convey a faintly optimistic note on the future. The Bank of England *Quarterly Bulletin* which concentrates on the three months up to the end of January eschews, for what are probably the right reasons, any comment on the future. It merely affirms the need for the recent restrictions on hire-purchase and rental agreements and observes, mildly: 'there remains some distance to go before the underlying (external) deficit is eliminated'.

The *Economic Review*, like the *Economic Bulletin*, implies that no further measures of restraint are called

for unless, in effect, the Treasury is prepared for increased unemployment and recession. They agree that the labour market is 'tight', but this is due to a mixture of hoarding of labour and pre-Budget spending; the pressure of demand may abate later in the year. If it does not, then the *Bulletin* affirms that the disinflationary forces should be strengthened. The *Review* is less sanguine than is the *Bulletin* about the balance of payments, and suggests that further control of overseas private spending and investment is called for. It also supports Mr Callaghan's bolstering of the reserves by drawing upon Britain's remaining external assets on the grounds that the present depleted reserves could mislead foreign commentators! Perhaps there are in fact some 'gnomes', but they are not quite so ill-informed as that.

Retirement Annuity Relief

A STATEMENT by the Council of The Institute of Chartered Accountants in England and Wales, published in *The Accountant* of March 5th (page 278), drew attention to the position which has arisen since the passing of the Income Tax Management Act, 1964, whereby retirement annuity relief given under the provisions of the Finance Act, 1956, may be restricted in certain circumstances because it might not be possible for some taxpayers to invoke section 23 (3) of that Act to relate a premium back to an earlier year.

The Inland Revenue have now announced that for 1965–66 and later years, an election under section 23 (3) of the 1956 Act, which is otherwise in order, will in practice be accepted where the notice of assessment is given in the first six months of the year, provided that the assessment does not become final and conclusive before October 6th in that year.

No Light on Steel

THE statement of the Chancellor of the Exchequer in the House of Commons last week on compensation for shareholders in steel companies added nothing to what is already known. He would not say that if a Steel Bill is introduced the Government will keep to the proposals set out in the White Paper.

He repeated the announcement on compensation made by the Prime Minister last November. At that time the Prime Minister said that his Government would nationalize the steel industry as soon as possible and issued a warning on any steps which might be taken in the interim to prevent the assets passing into State ownership.

The Chancellor said that he would not clarify the position until actual proposals for nationalization were tabled. At election time, when few votes are likely to be attracted to the Labour Party by terms of compensation and quite a few might be lost from disgruntled left-wingers who might see the election as a time of speculation in steel shares, it is not surprising that the Government prefers to have nothing to say.

Sticky Problem

AT least 2,000 million stamps, worth nearly £600 million a year, are stuck on insurance cards each year. This, says the Engineering Industries Association, is a waste of time and labour. Why, it asks, can't National Insurance contributions be collected through the P.A.Y.E. system?

Suggesting that National Insurance dues should be collected in the same way as graduated pension contributions, the Association says, in a letter to Miss Margaret Herbison, Minister of Pensions and National Insurance, that not only would the proposed method eliminate security risks, but there would be a considerable saving in costs and time spent in printing, distributing, purchasing and affixing insurance stamps. This saving would also extend to the printing and distribution of National Insurance cards.

The Association points out that in view of the fact that National Insurance contributions are limited to a series of fixed rates per category, the incorporation of the deduction process into the P.A.Y.E. system would not appear to present insuperable technical difficulties.

Companies Bill Comment

SOME extremely good points were made in a recent memorandum on the Companies Bill by the Wider Share Ownership Council. It welcomes the Bill as far as it goes, but expresses disappointment at the inaction about non-voting shares, no par value shares, nominee holdings, directors' share deals, and the protection of minorities.

An appendix to the memorandum sets out what it calls a radical suggestion on non-voting shares. This consists of various amendments to the Companies Act, 1948, directed to strengthening voteless minorities *vis-à-vis* stock exchange companies. In particular, a class resolution of shareholders having a majority interest, which was contrary to a resolution in general meeting, would be prima facie evidence for action on fraud or oppression grounds. A class meeting not carrying a majority interest would be able to found proceedings against action being taken on a voting majority resolution in the opposite sense.

The memorandum, reasonably enough, points out that to withdraw exempt status from private companies makes it all the more difficult to impose higher standards of disclosure on quoted companies, since the existence of hundreds of thousands of small private companies constitutes a formidable argument against the publication of elaborate accounts.

On the question of nominee holdings and on directors' transactions in their company's shares, the

memorandum rightly asks for more information to be available. The suggestion is made that a person who controls 10 per cent of the shares should disclose the fact to the Board of Trade, for suitable dissemination by the Board.

Cheaper Short-term Export Finance

IN a statement in the House of Commons last week, the President of the Board of Trade announced that the Export Credits Guarantee Department and the banks had now settled the details of a scheme for cheaper export financing of bill business up to two years credit against the unconditional guarantee of E.C.G.D.

The first of the new E.C.G.D. guarantees should be ready in about two weeks, and will enable the holders to obtain finance at day-to-day Bank rate (with a minimum of 4½ per cent) for any eligible export business on a bill of exchange or promissory note basis involving credit of thirty days or more but less than two years. To qualify for one of these new guarantees an exporter must have held a normal E.C.G.D. credit insurance policy for twelve months. This is because there will be no prior checking by the Department of individual transactions.

As the Department cannot immediately handle all the inquiries expected, applications will initially be 'by invitation', beginning with those policy-holders having the largest volume of insured export business, and working through the list as fast as possible.

This is My Life

by An Industrious Accountant

HE would be leaving school this coming summer, he explained, and was interested in hearing something about the pros and cons of a career in accountancy. He was very appreciative of my going to all this trouble to help him in his deliberations, jolly decent at such short notice.

No trouble at all, I said benevolently, remembering that his father and I had been friends in our schooldays. I had a quick recollection of my own problems at the same age, trying to sort out what I wanted to choose as a career. My elder brother had pressed the joys of a doctor's life, and my uncle had stressed the financial rewards of dentistry. These left me cold. The prospect of spending my life gazing into the gaping jaws of a never-ending procession of total strangers, with the distasteful odours of assorted drugs, blood, sweat and tears superimposed, were repulsive. My own preference for the R.A.F. was regretfully vetoed by my father, who had seen a succession of niggardly and myopic Governments 'axe' the services mercilessly over the past decade. There was little information about accountancy available among my family circle, compared to what is to be found now.

'I've seen my father's auditor as well as the local branch secretary', said my young visitor complacently, 'so I've heard all about the practising man's angles. What about the risks of going into industry? How fast can you climb the ladder?'

In my own search for information I also had sought an interview with the district society secretary, on the principle of going directly to the source. He'd been most helpful, giving me the year-book and a bundle of old examination papers, and outlining the probable courses of the five formative years of an articled clerk. He had not given any but the most general estimate of the salary or prospects which might fall within my grasp in later years. In this respect, he had said urbanely, best wait and see; time would tell. In fact I had gleaned the bulk of my knowledge from an article which I can still remember, in a once well-known annual called *The Captain*. It's vanished since, but it's been responsible for my choice of career.

'I have all the details of articled clerks' pay scales and conditions, and present range of salaries for qualified men', continued my questioner, 'but what are the real requisites for an accountancy career? What sort of characteristics should I have?' His tone betrayed his certainty that he had already all those required.

He had more poise and maturity than my generation, certainly; we were told that ability at mathematics, hard work, conscientiousness, and integrity, would be enough. Should I warn him about tact, or deference towards his elders, or a flair for remembering names and faces – these being qualities where I had largely missed out? Or the ability to speak at dinner parties, or a low golf handicap – two gifts which would help him up the ladder?

'Dad warned me to aim high', he said, with a disparaging glance around my office. 'No messing about with long tots or journal entries, no routine stuff. The big pay-off is via industrial take-overs, Dad tells me, or buying options in the City'. He sounded insufferably smug. His father had been transparently honest when I knew him first; maybe heredity was going by contraries or else junior was a throwback to his grandfather of lamentable memory.

With a lurking consciousness of being 'square', I told him that there was no royal road to accountancy prowess. He'd never be a good leader until he'd learned the hard way the basic skills of his craft from the bottom up, and so on. He listened with apparent respect but his mind was far away bulling the market for the first million of his meteoric career as an international tycoon.

'Youth is the time to go flashing from one end of the world to the other. . . .' But will the City welcome him, I wonder?

Case Studies in Teaching Management Accounting

by NORMAN THORNTON, F.C.W.A., A.M.B.I.M., M.I.O.M.
Lecturer in Management Accountancy, Manchester College of Commerce

CASE studies are, of course, used in universities and colleges in Britain but not to the same extent as in the U.S.A. where the method has been applied with great success, particularly at the Harvard Business School. It is certain that in the future case studies will play a greater part in management education and it will therefore be of interest to consider: (*a*) the purpose of case studies; (*b*) how they may be used in the teaching of management accountancy.

Purpose of case studies

Case studies may be utilized to direct attention to a principle which needs emphasis or to provide information as a basis for discussion. Whilst case studies may be referred to as examples in a lecture, their real value is in their use in group instruction, the aim being to create a situation where trainees will teach themselves. A group of students of different backgrounds and experience can generally make a significant contribution in the discussion that follows the presentation of a case study.

The approach to solving business problems is very important and case studies provide valuable experience in:

(1) defining the problems to be solved;
(2) appreciating the inter-dependence of data;
(3) realizing the complexities of most business problems;
(4) recognizing the limits on efficient decision-making where all the necessary information is unobtainable;
(5) recognizing what additional information can be obtained to improve the quality of decisions reached;
(6) identifying irrelevant matter;
(7) developing a logical and analytical approach to the solution of problems;
(8) reaching a solution with the co-operation of others;
(9) broadening the view of students who generally regard problems from their own limited experience;
(10) improving the communication ability of students.

Business facts are selected to describe a business situation, and one or more problems may require solution. Some case studies also describe the action taken to solve the problem(s) and the trainee may then be asked such questions as:

(1) Do you think a satisfactory solution has been found?
(2) Could the problem be solved in any other way?

Cases are usually drawn from life but they can be fictitious, providing they are realistic. Students are given time to review the facts of the case and they may be able to obtain further background knowledge. If, for example, the case study is presented in advance of the time designated for its consideration, students may study the textbooks or visit the library in an effort to review material which may help in solving the problem(s). Various possible lines of action can then be discussed and at this stage each alternative will be evaluated. A decision will then be reached and this should be supported with pertinent arguments and evidence. Written reports may be requested from students to give practice in this form of communication.

In leading case study sessions, the lecturer may often require to do nothing more than keep the discussion on the subject, but he may also ask pertinent questions that will lead the discussion to an acceptable conclusion. Sometimes it may be necessary for him to offer an opinion.

Use of case studies

The shortage of good cases for instructional purposes presents a problem. The lecturer can write his own but this is a difficult task and takes time. Over a period, of course, the lecturer may be able to accumulate sufficient material of the right type. Part II of *Teaching Management*, by H. Newman and D. M. Sidney (Routledge & Kegan Paul), is particularly recommended for the good advice it gives on writing a case study.

Case studies in management accountancy often present a number of difficult and conflicting technical factors, e.g., the provision of capital expenditure

projects for evaluation. Failure to analyse adequately the initial information given, or request information which may not initially be given in the case, tends to result in a poor effective solution.

The big problem in using case studies is the time factor. In most examination courses, little opportunity is available for case studies because of the long time required for discussion, particularly if the lecturer is not a good case study leader. If the non-directive approach is used – the lecturer refraining from influencing the group's thinking or its conclusions – essential points may be missed.

Case studies can be a valuable supplement to other teaching methods, especially in short courses for business executives, but they should not be regarded as a replacement for other teaching methods.

Case projects

The term 'case project' is used to describe an exercise which starts at the beginning of a course and is completed after a prescribed series of lectures, each lecture being closely identified with each phase of the project. The exercise begins with instructions to the student on the following lines:

> This exercise is the first section of a project designed to illustrate general principles and produce at the end of the course a complete set of management accounts. You are required to submit your own figures and statements which will be simple yet comprehensive and appropriate to the type of business you select. At this stage you should show for the imaginary business of your choice:
>
> (1) an organization chart;
> (2) an outline of the type of business – its products, type of production, method of distribution and any other factors you think pertinent to an understanding of the management accounts to follow.
>
> In providing the above information, pay particular attention to the following:
>
> (*a*) simplicity and comprehensiveness; remember that the detail now given will be developed in later sections of the project. A complex answer now could give you a lot of trouble as the project develops. It is suggested you limit the works department to two production departments and three service departments;
>
> (*b*) the form of organization, which should be appropriate to the product chosen;
>
> (*c*) staff and line relationships.

Financial relationship

Following a lecture on accountancy ratios, the second set of instructions are given to the student, somewhat as follows:

> In this second section of the project you are asked to provide a set of financial accounts for the year ended December 31st, 1965, for your imaginary company. In providing this information pay particular attention to the following:
>
> (*a*) the trading account, which mı cost of sales in relation to the goods, though the detailed fact omitted. You should, however finished goods stock levels on t factory cost of sales.
>
> (*b*) that the accounts required i account, profit and loss accour of the company (not for public
>
> (*c*) that the relationship of the fi realistic. Watch particularly:
>
> (i) profit percentages;
> (ii) profit distribution;
> (iii) cost levels;
> (iv) taxation calculations;
> (v) asset and liability values;
>
> your knowledge of ratio analysi in the answer to this project;
>
> (*d*) simplicity and comprehensiv ticularly important in the cas account and balance sheet de account expenditure should be cost headings of administratic expenses, and distribution exp
>
> (*e*) descriptions given to items of answer to this project will be jects. Be careful with your tern

Budgetary control

As a third example, instructions suc may be given to the student after a l ing and budgetary control;

> In this section of the project you pare for the budget period – twe December 31st, 1966 – the following company:
>
> (*a*) a sales budget;
>
> (*b*) a product group sales budget fo groups.
>
> In providing this information you to the following points:
>
> (1) in respect of the sales budget:
> (i) limit the analysis to five distribution to two areas;
> (ii) units can be ignored;
> (iii) indicate factory cost of sal group; as a result of provid indicate in the sales budg mation that you think may
> (iv) remember that sales, prc levels are related to each o
>
> (2) In respect of the product grou
> (i) limit the analysis of the pr types of product for sale;
> (ii) limit the distribution to tw
>
> (3) In respect of both budgets:
> (i) watch layout and present essential;
> (ii) provision for the control made but figures (as far as are concerned) are only

ject	Case project section	Main requirements from the student regarding the imaginary company of his choice
ontrol	4	Production cost budget. Material cost budget. Stock budget.
ntrol	5	Labour cost budget. Trading results budget.
ontrol	6	Variable factory expenses budget. Fixed factory expenses budget. Administration expenses budget. Selling expenses budget. Distribution expenses budget.
enditure	7	Capital expenditure budget.
ontrol	8	Cash budget. Balance sheet budget.
on and	9	Code of accounts.
n for ient	10	Outline routine reports.

f emphasis

wing points are stressed to the student it the case project:

plicity. Only essentials should be illustrated ve detail cannot be developed in the time

prehensiveness. Although simplicity is essen- roject result should be sufficiently compre- illustrate fully not only the current lecture lectures where illustration is possible in the

dity of the figures. Existing knowledge should gure relationships on financial statements and chosen should be given only after considera- ese relationships. Where a student's know- weak he may find it necessary to correct oject answers if he finds that the figures given do not measure up to subsequent nts. Whilst the lecturer may suggest amend- submitted answers to earlier sections of the articularly where glaring omissions have e, the student will gain considerably from subsequently the inadequacy of his earlier d correcting such figures consistently through uent statements.

ized. Allied to this point is the order in which items appear. Logical, clear, and concise presentation should be encouraged.

Each answer submitted by students will naturally differ but on completion of a set of management accounts, as envisaged, students should have realized by practical experience that:

(1) management accounting is comprehensive in concept;
(2) sections of the subject are not isolated and the relationships may be complex;
(3) management accounting systems must fit the business; it is necessary, therefore, to design a system for each business and since no two businesses are alike systems will also differ, even where size and type of business are similar;
(4) management accounting is biased to the needs of management and must recognize management responsibility;
(5) management accounting must be applied with discrimination, and the significance of facts is very important;
(6) management accounting systems must recognize the timeliness of information and the necessity for accurate recording;
(7) management accounting is essentially a control mechanism for the business and is 'forward looking' rather than 'historical' in approach.

Conclusion

The study of management accounting at advanced level should consolidate existing knowledge and place isolated aspects of the subject in perspective.

A mastery of any subject implies not only extensive theoretical knowledge but also the skill and ability to apply that knowledge. Management accountancy is a practical subject and the lecturer should place as much emphasis on the practical issues involved as his personal experience will allow. Wherever possible this experience should be extended by the use of knowledge gained 'on the job' by the students, and it is rare to find that a student at advanced level is unable to make some contribution to class instruction. Case studies are useful in this respect and the case project is of great value in the teaching process.

Those interested in further reading on this subject are referred to *Case Study Practice* and *How to Lead Case Studies*, both published by the British Institute of Management, and *Case Studies*, by E. C. D. Evans F.A.C.C.A., Macdonald & Co (Publishers) Ltd.

Internal Control Problems arising from E.D.P.

by K. GRAHAM, Manager Project Planning Branch,
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WHEN a company uses a computer, how can it be ensured that commercial data is processed completely, accurately and safely?

These objectives are not the sole province of either auditors or computer systems analysts, but are the shared responsibility of both. Auditors have the right to insist upon participation in the planning stages of a computer project, and as a computer planner, I should always invite their participation and suggestions. The computer people should welcome the auditor's involvement in their systems, because if and when control problems are met it will be their task to undertake corrective action – which is sometimes difficult, usually costly, and always a nuisance.

It may be as well to clarify the terms used in the title of this article, as follows:

Internal
Should be regarded as being within the company (rather than exclusively within the data processing department).

Control
For the purposes of this article, means ensuring that data is complete (i.e. comprehensive and up to date); accurate (i.e. pertinent to the system, and capable of being *proved* exact); and safeguarded (against mutilation, loss or fraud).

E.D.P.
Electronic data processing may be regarded as synonymous with computers, and in this article I deal entirely with the use of computers on commercial work.

I propose to follow an imaginary computer system through its various stages from source to destination, indicating where control problems may occur and suggesting what actions can be taken to minimize the risk of errors being made – or remaining undetected when they *are* made. Auditors may insist that such precautions are built into a proposed computer system, and the absence of such precautions in an existing computer system should lead them to examine with especial care those deficient parts of it, for it is here that control problems are likely to arise.

But first, a general comment about the use of computers for processing commercial data. Computers manipulate data which, at some stage or other have been converted into numbers. Thus, customer names, product descriptions, locations, types of availability or disposal container descriptions, units of currency, units of measurement, etc. – in fact, all alphabetical data – must be identified by a unique code number from a suitably designed code series. The creation of coding series is one of the systems analyst's most important tasks in devising a computer system, and incorrect coding is probably the most frequent reason for control problems being encountered when the system is working under operational conditions.

As I describe the route along which data pass, I am in danger of becoming repetitious about the problems of coding; this is unavoidable, because coding involves each of the stages along the data route which is as follows:

Source
Stage I .... ↓
Collecting point
Stage II .... ↓
Conversion of data into machine media
Stage III .... ↓
Computer processing
Stage IV .... ↓
Destination

STAGE I: Source to collecting point

To a large extent the control of data between 'source' and 'collecting point' is neither more nor less of a problem when the subsequent processing is performed by computer; whether processing by manual, mechanical, or electronic means, it is – and always has been – essential to ensure that data are complete, accurate and safeguarded. However, the use of computers brings about changes. Source documents (receipts, delivery notes, pay records, etc.) are usually redesigned so that they can be used as punching documents, and this means that:

(*a*) provision must be made in the document for code numbers to be entered in coding boxes against the alphabetical data;
(*b*) the sequence of entries in the document may be altered, to fit in with the sequence of punching along a paper tape or punched card;
(*c*) because punch operators cannot be expected to have background knowledge of the particular system, source documents must be completed so as to leave no room for ambiguity and therefore interpretation – or *mis*interpretation;
(*d*) because computers can store and process data in many different ways, source documents may be expanded to contain more basic data than formerly (e.g. statistical data in addition to financial data).

Changes like these demand their own precautions against error. Computers work to rule and their use requires that information fed into them should also be presented in accordance with rules. It is unrealistic to expect that humans will *always* complete source documents in accordance with established rules, but a few ways can be suggested whereby the chances of incorrect completion may be reduced:

Coding: if volume and stability make it an economic proposition, the best way to avoid errors is to have the alphabetical data *and* the appropriate code numbers preprinted on the source documents, and thus obviate any chance of incorrect look-up or wrong transcription; rubber stamps can provide the same safeguard on a more limited scale; automatic typewriters can be used to imprint all alphabetical data together with appropriate code numbers,

by using pre-punched 'library' cards for customer name, product, method of delivery, etc.

Ambiguity: it is generally better that *in*applicable items should be deleted from a list of alternatives, rather than have the applicable item ticked. A decimal point may be overlooked or misread, and this risk can be reduced by having a hair-line printed in the quantity box to represent the decimal point position. Capital letters should always be used in completing source documents as an aid to legibility. Wherever possible, instructions for completing a source document should be printed on the reverse of the sheet, so that they are always available in case of doubt.

A computer's input data must be completely accurate and unambiguous, and it must be acknowledged that this stringent requirement introduces a possibility of error in a computer system which is not so great in a manual system. But as I follow the data route, I shall endeavour to show how a computer system can be designed to overcome this drawback by incorporating its own controls.

Before going on to Stage II along the data route, I ought to make a general point here about the importance of *timing*. Unlike a group of clerks – who can begin to process source documents as and when they become available – it is desirable that computer *processing* (as distinct from conversion of data into machine media) should not begin until *all* source documents have been received. In designing the computer system, the systems analyst should have established the 'close-down date(s)', i.e. the latest time(s) and date(s) by which source documents should be submitted to the data processing department in order that they can meet the recipients' target dates for presenting output tabulations to them. Once close-down dates have been agreed, it is of the greatest importance that they should be adhered to by all participants along each stage of the data route – otherwise one of the computer's greatest benefits, speedy processing, may be nullified.

STAGE II: Collecting point to data conversion

Stage II lies between the collecting point (for example, the head office accounts department), and the place where data will be converted into machine media, the data processing department; here it is usual to have a section or clerk whose job is to control data in and out of the computer. All source documents sent from the collecting point to the control section should be batched and supported by a serially numbered control slip or control book.

There is no need to describe the technique of batching documents and supporting them with control slips, which has been commonplace since long before computers came into use. There is, however, one point which may have special relevance to computer processing. This relates to the segregation of different types of source documents into separate batches. Such segregation not only assists in regulating the flow of documents to the data processing department but, to the extent that the collecting point must scrutinize the documents in making the appropriate segregation, staff are more likely to find errors (or avoid making them) in the code entries which appertain to the segregated factors. For instance, if debit notes and credit notes – in an invoicing application – are batched separately, errors in the Dr and Cr codes are more likely to be detected. Similar argument can be advanced for separate batching of documents according to unit of measurement, unit of currency, etc., or indeed, any factor which experience has shown to be susceptible to errors in coding.

Having received batches of source documents from the collecting point, the control section of the data processing department checks:

(*a*) that the stated number of documents is attached to the batch slip;
(*b*) that the batch total(s) are accurate; and
(*c*) returns acknowledgment of receipt of the documents to the collecting point.

Responsibility for these documents and the processing thereof now rests with the data processing department.

Details from the batch slips should be entered in some form of control register; the following represent the minimum details which should be recorded:

batch number
time and date of receipt
number of source documents received
control totals
time and date the documents are passed for punching.

I strongly recommend that any data processing department should prepare, in advance, a monthly time-table showing the times and dates by which data preparation should be completed, in order to fit in with a related time-table showing the times and dates when individual jobs are scheduled for running on the computer. In this way control over timing can be exercised, and it is in this connection that I mention the desirability of the data preparation sections maintaining records of times and dates that source documents are received and passed through to the computer for processing.

STAGE III: Data preparation and conversion

The punch room will receive controlled batches of documents accompanied by the control slips, and should also complete a record of the time and date each batch is received. Punched cards are the most common medium of input to commercial computers and the various ways in which data are controlled at the data preparation stage are as follows:

(1) Depending upon the particular application, it may be that there is a sufficient volume of static information to be punched into cards to warrant the setting-up of pulling files (i.e. cards which have been punched at some earlier time on a gang punch containing, for instance, customer name and code number, or product name and code number). Such cards are interpreted (i.e. their contents are printed along the top edge), and an operator will pull cards by searching for the code numbers shown on the source documents. By so doing, he is also able to check the accuracy of the code number by comparing the alphabetical description printed on the pulled card against that written on the source document.

(2) Data which cannot be held in a pulling file must be punched into cards at the time when source documents are received. It is the responsibility of the systems/programming staff to write instructions for the punch operators, describing in absolute detail how each entry in a source document has to be recorded in the cards. Card punching, being a human activity, cannot be guaranteed to be done completely accurately (experience shows that an error rate of about 2 per cent must be expected), and each card which is punched should therefore be passed to a verifier, who will repeat the key punching of data from the source documents on a machine which signals when the original punching and the subsequent verifying do not correspond, indicating an error.

(3) The systems analyst or programmer should also write 'handling instructions' to describe:

(a) the way in which data cards have to be presented to the computer, e.g. with any special cards which must precede or follow the data cards (for example, cards punched with the control totals off batch slips) or any special way the data cards should be pre-sorted – although this should rarely be necessary because computer sorting of data is generally preferable;
(b) which, if any, standing files should accompany the data cards;
(c) which magnetic tapes are to be issued to the computer operators by the tape librarian.

(4) Finally the systems/programming staff are also responsible for providing the computer operations branch with 'operating instructions'. These contain instructions on:
(a) the stationery to be used;
(b) the manual orders necessary to run the program (and the sequence in which they should be operated including switches which set the initial state of the machine as required); which computer peripheral equipment is to be used; and whether particular housekeeping packages/utility programs are required to be run in conjunction with the main program;
(c) the procedures to be adopted if error conditions arise during computer running.

(5) Computer running can only begin after the foregoing preparatory work has been done, but before any 'processing' is undertaken the computer should be made to carry out a final check on the data to be processed. This is done by running the data against a validity program. The range of validity checks which the computer can be instructed to perform depends upon the particular application, but the following examples from my own company's validity programs should illustrate the kind of checks which can be applied:
(a) check that no values greater than 9 have been punched in numeric fields on the data cards;
(b) where sterling values have been punched in the data cards, check that there are no values greater than 9 in the fields for sterling pounds and units of shillings, or greater than 1 in the ten shilling position;
(c) check that alphabetical fields in data cards do not contain numeric data, unless specifically allowed;
(d) (in a marine payroll application) check any changes to rates of pay, to confirm that the new rates agree with a rate stored by the computer for the appropriate rank/seniority;
(e) (also in the marine payroll application) when a promotion is advised, check that the promotion is possible by reason of extra qualification or seniority. Also check for feasibility of the promotion – not, for example from cook to first mate! (An organization table is held in store by the computer for this purpose);
(f) check that the quoted account numbers relate to customers of the appropriate trade;
(g) check for agreement in all the fields/columns of data cards which have been gang punched;
(h) check that all fields/columns in the data cards have been punched in accordance with the punching instructions;
(i) where magnetic tapes are being read, check that the totals (written on the tape when it was created) are recalculated and agreed, to ensure that all the tape records have been correctly read;
(j) recalculate the control totals submitted with the source documents and compare them visually with the control register, or – *via* the validity program – with the control totals punched into a card accompanying the data cards;
(k) where coding series have been devised to incorporate check digit features, recalculate the appropriate formula to check the correctness of the code numbers being used.

(Example: given a five-digit number – say ..	63556
Multiply the first digit by one	6
,, ,, second ,, ,, two	6
,, ,, third ,, ,, three	15
,, ,, fourth ,, ,, four	20
,, ,, fifth ,, ,, five	30
Add the results	77

The total must be exactly divisible by eleven to be a valid code number, because only code numbers which conform to the above formula should be issued. This particular formula guards against the transposition of adjacent numbers, or incorrect repetition of numbers (such as 63556 being written 63356), which are the commonest clerical mistakes.

As a matter of principle, wherever rules can be applied to the data to be processed, the validity programs should check that such rules have been applied.

No further processing of the data should be undertaken until all the validity queries (which are printed out by the computer, together with control totals) have been settled, and corrections made to the data where necessary. For absolute evidence that no errors remain in the data cards, they should be re-run against the validity program until all validity queries have been eliminated; but against this, one must consider both cost and availability of the computer time required to provide such evidence. In practice you may be satisfied to forego further validity running once the initial queries have been investigated, and (carefully) corrected cards have been substituted in the data pack where necessary.

STAGE IV: Computer processing

The next stage of the data route is 'computer processing', and at this point I would like to deal with the general matter of control from two separate points of view – *control of the data* during processing, and *control of the computer programs* which direct the manner in which processing will be carried out.

Control of computer programs

These are written in accordance with the specifications given to the programmer by the systems analyst, who describes exactly how the data should be processed under all foreseeable circumstances. The programmer's first job is to convert the specification into a flow chart, which sets out the sequence and manner of processing according to all the circumstances which may prevail. He then translates the flow chart into a set of instructions written in 'computer language', which are fed into the computer through the medium of punched cards or punched paper tape.

Although this is a very abbreviated description of a programmer's work, it is sufficient to show that it is an area where control problems may arise, and exhaustive testing is the only way to ensure that data will be processed completely and accurately. There are normally three stages of program testing. First, a program is tested progressively as it is being written, to confirm that there is no break or ambiguity in the logical sequence of the program instructions. Secondly, it is run on the computer against test data, compiled jointly by the systems analyst and the recipient to contain all the foreseeable circumstances which may be encountered. Thirdly, the program is run in parallel with the existing procedures until the recipient of the computer results is satisfied as to their reliability.

It is not always feasible to carry out all aspects of the

second and third stages of testing. For example, the programmer will have allocated an area of computer storage which is more than adequate for anticipated volumes of input data, but which may prove inadequate when faced with an abnormally high volume of data and give rise to a program failure (fortunately, from a control point of view, this invariably produces such obvious rubbish on the computer print-out that it is quite unusable). There are few data processing departments which can afford the time to create and run abnormal volumes of test data just in case such a situation should arise. It is also likely that some programs within a computer system will be required to produce output for which no parallel exists in the current procedures, and parallel running is clearly impossible in such cases.

Where circumstances preclude the second or third stage of program testing, it is important that the testing which *is* possible should be carried out – and the results evaluated – even more rigorously than may otherwise have been considered necessary.

An operational program is a valuable commodity. The cost of producing it may have been considerable; it could not be replaced quickly if it were destroyed or lost; and if amended fraudulently it could result in financial loss to the company. For these reasons packs of program cards should be held under security conditions. There should always be a duplicate master program held under lock and key, and the working program should be accessible only to computer operating staff. If program amendment becomes necessary, the master program should be reproduced for the maintenance programmer to work on – and when the amendment(s) have been thoroughly tested, the tested program will then supersede the original master program, and a duplicate should be reproduced from it to become the new working program. Programs should not be amended without authority from the manager of systems/programming, and a record of amendments should be maintained.

Control of data during processing

There are two kinds of control applied whilst data are being processed – that which is exercised automatically by the computer's own circuitry (known as 'hardware'), and that which is incorporated into the program directing the processing. Computers have automatic facilities for checking that input data has been read correctly (by duplicating the reading and comparing the two readings), and similar facilities exist for checking that data which is output on punched cards is correctly punched. They usually have a 'voltage stabilizer' built into them to regulate any fluctuation in electric current within a wide range of tolerance, which might otherwise distort the data.

Another form of hardware checking – called 'parity checking' – is done automatically when data is transferred from one part of storage to another. This simply means that the newly-stored data is compared with the originally-written data (which is not obliterated until overwritten by some further transfer into that storage location), and an error is signalled by the computer if the two do not correspond.

The control exercised by program during computer processing is an extension of the principles of validity checking which I have already described. The following few examples will illustrate the possibilities:

(*a*) results of calculations may be checked for plausibility, e.g. maximum limit for pay on a staff grade X should not exceed £N.

(*b*) reverse calculation, e.g. $A \times B = C$; $C \div B = A$; check that $A = A$.

(*c*) when a computer program uses magnetic tapes, it should check that the correct tape has been loaded on to the tape deck, that the generation number is correct, and – if information is to be written on the tape – that the retention period for the information already on it has been exceeded, and it is therefore permissible to overwrite the tape's existing contents.

Additionally, the program should always recalculate the control totals originally recorded in the control section's register, which should be printed out as a tailpiece at the end of printed output.

Supplementing the controls carried out *inside* the computer during processing (both automatic and programmed), there are two further external precautions which should be taken to ensure that data is safeguarded. Firstly, where processing involves the up-dating of information on a brought-forward magnetic tape record, it is essential that a 'grandfather-father-son' system should be followed, i.e. retain the grandfather-tape and father-tape until the son-tape has been created and proved accurate before dispensing with the grandfather-tape. Such a precaution preserves the ability to reconstruct a tape from a previous one.

Secondly, although it is not possible *automatically* to check the computer's printed output, it should be part of the daily operating routine for a 'printer test' to be carried out, whereby a special test program is loaded to utilize all the print positions on the printer and confirm that they are working satisfactorily. This routine minimizes the risk of a defective print hammer failing to print what may be a highly significant digit on output documents.

When dealing with 'control of data' I implied that controls are directed at a single program. This is an over-simplification of the position in most computer applications, because these are usually made up of a 'suite' of programs – the output from one program being used as input for others. Where this occurs, the output is generally stored on magnetic tape or punched cards, and another fundamental control which should be exercised throughout the computer system is that the intermediate tape or card records should always be balanced to control before subsequently being processed by further computer programs.

At the end of the data route is the dispatch of output documents to the recipients, and on this I need only mention (*a*) that before leaving the data processing department, the output documents must again be balanced back to the control register entries – recorded at the time when source documents were received; and (*b*) the time and date of dispatch should also be recorded as evidence that a particular commitment has been dealt with.

Evidence of control

For the last part of this article I would like to suggest what evidence should be available to auditors as proof that control has been exercised. I shall try to do this by summarizing the points I have already made, and elaborating briefly on some of them.

(*a*) *Auditors' participation in planning stages:* apart from satisfying themselves that the proposed computer system contains some, if not all, of the controls and precautions I have described in this article, it is during the planning stage that auditors should make known to the systems analyst the details of any special output returns they may wish to receive – either regularly or on request – for their own auditing purposes.

(b) *Coding series:* I have quoted an example of a coding series containing check digit features. The successful working of such coding series depends upon the incorporation of some specific formula in the code structure, and it may be well to audit a range of code numbers and their check digits, to confirm that the formulae are being applied correctly.

(c) *Control totals:* in describing the data route, I mentioned the points along it where control totals ought to be recorded and checked. All such points should be able to make their records available for further audit checking if desired.

(d) *Punching and operating instructions:* these are permanent records held by the computer operations branch and are available for audit examination if required.

(e) *Validity print-outs* provide the most comprehensive records of queries raised by the computer on the data presented to it. The queries do not always reveal *errors* in the input data (it may be remotely possible that a cook *can* be promoted to first mate – but the computer would query the point before processing is continued.) It is desirable to incorporate validity checks into computer systems and retain the validity print-outs for audit examination.

Where it has been decided not to rerun corrected data cards against the validity program, there will, of course, be no further print-out available to provide evidence that the original queries have been settled. In such cases, auditors can examine the corrected data cards for assurance that the original quer been resolved.

(f) *Computer programs:* although program inst written in 'computer language' are incompre to those without programming knowledg charts which describe the programming logic require any special expertise to be able to un them. If, therefore, auditors wish to examine the in which a program directs the computer pr (and presuming that they are not trained progra I suggest that they refer to the flow charts.

I mentioned that before computer programs operationally, they are first run against test d then run in parallel with the existing proce believe that auditors could obtain assurance fo selves *and* assist the computer people by cont to the test data and evaluating both the test res the computer output results produced during th of parallel running.

After a program has been running operation perhaps has been amended since its initial im tation), auditors can, if they wish, test the p reliability by having it run on the computer their own fictitious data, and then checking th against pre-calculated results.

(g) *Control of data during processing:* the scope and lity of the 'hardware' and programmed validity can be tested by feeding into the computer fictitious data containing a range of deliberate er inaccuracies.

Management Information

Computers, Accountants and Auditors

In 1954, the United States had one electronic computer in use, processing business transactions. By mid-1962 the number had reached nearly six thousand; by the end of 1964 the figure was probably around twelve thousand. The rate of growth appears to be quasi-exponential.

In the United Kingdom, the pattern has been similar in some respects. The first commercial computer was in operation about the same time as the first computer in America. This U.K. computer was LEO, specially commissioned by Lyons. However, the growth in the U.K. over the last decade has not been so sensational as in America, though it has been fairly rapid.

Now in the year 1951 – three years before it was to be used – a commercial computer, UNIVAC–1 was available and ready for use. Why then, it might be asked, the big gap between this date and the late fifties when sul use was first made of computers in business. The would appear to lie in the different needs of s research and business.

Any computer consists essentially of input – pro unit – output. Scientific and research calculation tremendous load on the processing unit, and r little on the input and output. For commercial w reverse is the position – high input and output r required; the actual calculations required for eac action are comparatively simple.

The first computers were ideally made for c scientific calculations, but were relatively unsuit business use. It is not surprising, then, that rece have seen a tremendous amount of work put into im the input/output side of computers. The resulting i in the speed of operation of this peripheral equipm been very great.

Input (or output) can, of course, be effected th variety of media – as punched cards, punched pap magnetic tape, Telex, typewriter, and so on. Punche tape is commonly used for scientific work. Punche are probably the most practical for commercial wo are certainly very suitable for computer operation. over, many businesses which have considered ir computers in the last few years have already existing punched-card installation at work. To ret punched cards as the primary feed document and them for input into the computer was an obvious s this means, an existing system can be tied in with t puter operation. The first computer designed specific this purpose was the IBM 1401, available late in 195

might well be described as the first business-orientated computer.

The characteristic of this type of system is that the information is first punched into cards from primary documents; the cards (after checking) are then fed into computers in batches. The print-outs of information from this batch-controlled system are very similar to those from normal punched-card systems. The auditor, therefore, does have records he can rely on, and the type of audit procedure he employed for punched-card installations can be applied, with relatively little change, to these computer installations.

There is, however, a growing tendency to break away from this type of computer system. The trends are towards reducing (or eliminating) the punched-card section and incorporating much more sophisticated peripheral input and output equipment, and towards the use of mass storage devices (which will hold, in fact, the information at present stored on the punched cards). Seen this way it would appear that the punched card/computer set-up is only a transitional phase in the move towards a properly integrated data processing system.

The advent of mass storage presents extraordinary problems to the auditor. Card Random Access Memories (CRAM) allow of massive information (each card storing some eight million numeric characters, and up to sixteen cards being accommodated in a system), with exceptionally rapid access time, say, 200 milliseconds. But up-dating a record on such a device erases the original entry. Current balances only, therefore, are available, earlier balances having been eliminated.

In-line, as opposed to batch-controlled, systems obviously make the problem of following the audit trail much more difficult. It is significant that the main advances recently in computer hardware, other than in peripheral equipment, have been in storage facilities, so that the needs of in-line computer systems in the way of equipment have now been largely satisfied. Even so, in a fully integrated computer system, the processing unit can still work much faster than can information be fed into it and printed out. The main problem areas of software are in the use of business-orientated languages (COBOL, ALGOL, FORTRAN), the development of standard programmes, and information retrieval.

However great may appear to be the immediate problems of the accountant and the auditor, there is evidence that these will be substantially increased in the future with the arrival of on-line real-time systems. With on-line systems, the information is fed in direct from the primary document to the computer. No punched-card records are kept; all the balances are stored in the computer's memory. Real-time computer systems imply a direct link between a computer system in one firm, and a similar system in another. Information fed into one computer is transmitted straight to the other computer (if the information is relative to the recipient computer system). This is direct computer-to-computer communication. The on-line real-time computer system will therefore have eliminated not only past balances, but the need for most original documents as well. All information will be stored in mass-storage devices. Reports will be issued for management purposes in whatever form is required; and routine financial statements will be regularly printed out.

Opinions differ as to when such a system will be in practical operation. Wayne S. Boutell in his book *Auditing with the Computer* (University of California Press, 1965), thinks it should be fairly general around 1980. Perhaps it will be a few more years after this before it is entirely standard – say, by 1984!

The New Grants and Capital Investment Appraisal

THE recent White Paper on *Investment Incentives* has radically altered the basis on which such incentives were granted to businesses. Although there are a number of different views as to how this will affect the overall benefit of the allowances to industry as a whole, it seems likely that the total value derived from capital allowances will be reduced even further than the devaluation due to the introduction of corporation tax.

Whatever the arguments may be, however, one has still to take into account the changes which have taken place when appraising individual capital investments. The principal point will be the way in which one will have to deal with the receipt of the cash grants. Currently unde-discussion is the way in which individual businesses will take up these grants in their published accounts. Irrespecr tive of the outcome of these discussions, for the purpose of investment appraisal it is suggested that the cash grant should always be treated as a reduction in the amount of cash invested in the project.

Where the 'pay-back' method is used, this will have no practical effect on the pay-back period, since it is extremely unlikely that one would be considering a project with a pay-back period of less than eighteen months (i.e. shorter than the time interval between investment and receipt of the grant).

Where the discounted cash-flow method is used, one cannot simply reduce the cost of the plant etc. by the full amount of the cash grant. Initially, the cash grant will not be payable until at least eighteen months after the purchase, therefore the grant should be discounted for this period at the appropriate rate.

Example

PRODUCTION PLANT – NON-DEVELOPMENT AREA

	£		£
Cost of plant ..	10,000	*Net cash investment:*	
Criterion rate of return	10%	Cost	10,000
Present value factor for 18 months at 10 per cent ..	·87	*Less* Cash grant: £2,000 × P.V. of ·87 ..	1,740
		Net cash investment	£8,260

The annual cash flows can then be determined in the normal way, using the figure of £8,000 as the cost of the plant on which the annual allowances are calculated (i.e. that allowed by the Revenue).

One result of the new system of allowances will be to vary the effects of allowances in development areas, not only in the receipts of the various grants that are available, but also in the abolition of 'free' depreciation for such investments.

The exclusion of office machinery (other than computers) and vehicles will radically alter the relative rates ot return between production and non-production planf where D.C.F. is used, and undoubtedly many projects for improving administrative and distributive efficiency will now fall by the wayside.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

C.I.R. *v.* Parker

In the House of Lords – January 27th, 1966

(Before Viscount DILHORNE, Lord MORTON OF HENRYTON, Lord HODSON, Lord GUEST and Lord WILBERFORCE)

Income tax – Transaction in securities – For meeting future liability for estate duty – Capitalization of balance of profit and loss account – Applied in paying-up non-charged debentures – Debentures redeemed after seven years – Whether debentures securities – Whether transaction in securities – Whether circumstances satisfied – Whether tax advantage obtained – Whether section directed to redemption or only to capitalization – Time of obtaining tax advantage – Finance Act, 1940, section 20 – Companies Act, 1948, section 455 (1) – Income Tax Act, 1952, sections 184, 186, 199, 245, 246 – Finance Act, 1960, sections 27, 28, 43.

The taxpayer was a shareholder in a private company with an issued share capital of £35,000 in £1 ordinary shares. The taxpayer was concerned as to how liability for estate duty could be discharged on his death, and he wished to have liquid funds available for that purpose without interfering with the company's ability to carry on trading, and without involving a forced sale of shares in the company. On December 31st, 1952, there was a credit balance of £69,914 on the profit and loss account.

On May 18th, 1953, the company amended its articles of association to give it power to capitalize any part of the amount standing to the credit of a reserve account or the profit and loss account, and to apply the same amount in paying up any issued shares or debentures. On the same day an ordinary resolution was passed that £35,002 out of the amount at the credit of the profit and loss account should be set free for distribution to the members; but that it should be applied in paying up debentures for securing the £35,002. Debentures were issued to the members on July 13th, 1953, in amounts equal to the par values of their shares. The debentures were redeema option at par on six months' notice aft did not create any charge on the comp

On July 14th, 1960, the company debenture-holders of its intention to re on January 14th, 1961. At that time the profit and loss account was £128, 1961, the debentures were redeemed money was paid to the taxpayer. On the appellants served notice on the tax 28 of the Finance Act, 1960, that th tained by the transaction should be co being computed on the basis that the should be treated as net amount of di

It was contended for the taxpayer:

(1) that the debentures were not sec 28, because (i) they were not char assets; (ii) they did not give a mere debt; (iii) that they did no debtor relationship; (iv) that t for the payment of interest;

(2) that there had not been a transa that the redemption of the debe to securities;

(3) that there was no tax advantage

(4) that as Chapter III of Part IX of 1952, was directed to tax evasion section 28 of the Finance Ac restricted to tax evasion throug

(5) that the capitalization of the £ a tax advantage.

The Special Commissioners decid taxpayer.

Held (by a majority) reversing the of Appeal: the section was not co stripping; it applied to this kind of payer had obtained a tax advantage, confirmed.

Reynolds *v.* Trinidad and T Commissioner of Income T

In the Privy Council – November 23r

(Before Lord HODSON, Lord UPJOHN, WILBERFORCE)

Income Tax – Married woman living Deed of covenant by wife in trust for marriage – Whether wife is a person Whether annual payments deductible in chargeable income – Trinidad and Ordinance, 1938, sections 10 (1) (f), 18, Tobago Income Tax (Amendment) O section 5.

At all material times the taxpayer an together and each had an income fro investments. On December 28th, 195 a deed of covenant for making annual

ıefit of the four infant children of the marriage. ;er's return for the tax year ended December 31st, ıded his wife's income; and he claimed that the paid by his wife under the deed of covenant deducted from her income in computing the his chargeable income for that tax year. It was by the respondent that the covenanted sum was ible in computing the taxpayer's income for tax

Held: (1) an annual payment might be deductible under section 10 (1) (*f*) of the Ordinance, notwithstanding that it was not an expense incurred in the production of an income; (2) section 18 deeming the wife's income to be her husband's did not preclude such deduction, since that section was merely a machinery section for collecting tax from the husband; but (3) the sum in question was not deductible because it was by section 34 (2) of the Ordinance to be taxed as if the covenant had not been made.

;urrent Law

dge and Approval of Contents

:tate of Fuld (*No. 3*), *Hartley and Another v. Others* (*Fuld and Another intervening*) ([1965] 776) was a case of immense length and com- t it is here considered simply on a principle of ; to testamentary capacity upon which Scarman, nced judgment. The testator was of German and birth, acquired Canadian nationality and ly resided in England, but he never abandoned ın domicil of origin. He executed a will in ı English form, a first codicil in Germany in a ·lying with English and German law, a second England which was not attested, a third codicil in English form, and a fourth codicil which was ı Germany in English form and did not comply ·erman internal law.

ıs arose as to the validity of these various ·y instruments, including questions of testa- pacity and knowledge and approval, and undue Scarman, J., held that the English Court should German concept of testamentary capacity (which similar to the English concept), but in regard len of proof should follow scrupulously its own is lordship further held that in the English ›wledge and approval, the rule by which the ›urt was bound, in certain cases, where there to require affirmative evidence of a testamentary being that of a free and capable testator was evidential in character, and must be applied as part of the *lex fori*. In the event probate of the will and first codicil was granted, and the other codicils were rejected.

Family Provision: No Extension of Time

GENERALLY an application under the Inheritance (Family Provision) Act, 1938, for provision out of the estate of a deceased person to be made for a dependant within the meaning of the Act must be made within six months from the date on which representation in regard to the deceased's estate is first taken out (section 2 (1)). But the time for an application may be extended if it is shown to the satisfaction of the Court that the limitation to the period of six months would operate unfairly (*inter alia*) 'in consequence of some . . . circumstances affecting the administration or distribution of the estate' (section 2 (1A) (*c*)).

The testator in *Re Kay, Kay v. West* ([1965] 3 All E.R. 724) died on January 19th, 1964, and his will was proved on February 11th following. In that month his widow's solicitors made a general claim against the estate on her behalf. A legal aid certificate was granted to the widow on May 21st, and on the following day counsel was instructed to settle the application. The draft reached the solicitors on June 16th and they sent a copy to their London agents on July 9th so that they could issue the application, but they were not told the date of probate, and it appears that the widow's solicitors at no time had the six months' limitation period in mind. The London agents wrote inquiring the name of counsel who had settled the application, and this information was supplied on July 15th. Postal delays followed owing to a work-to-rule by postmen, and the application was eventually lodged on August 12th, one day out of time.

On those facts Russell, L.J. (sitting as an additional judge of the Chancery Division) considered what circumstances there were affecting either the administration or distribution of the estate. His lordship found that neither the fact that the widow was a dependant with a possible claim, nor the lack of diligence of the Post Office workers, nor that of her solicitors, were such circumstances. The widow's assertion to the executor of her claim, and the executor's solicitors' agreement to accept service were such circumstances, but it was not in consequence thereof, but in consequence of the inadvertance of the widow's solicitors, that the limitation period had operated unfairly. Therefore there was no jurisdiction to extend the time limit.

Finance and Commerce

Cable and Wireless

THIS week's reprint takes the view away from industry and towards the realm of investment trusts. The accounts of Cable and Wireless (Holding), from which the reprint is taken, are presented this year in bigger size with the object of providing greater information without loss of clarity. For the first time all items are shown at the nearest £1,000.

In the group accounts not only is the book value of the various classes of investments and the market value of quoted investments shown, as in the past, but detail provides what the governor of the company, Mr S. Pears, F.C.A., describes as a 'reasonable idea of the valı the unquoted investments'.

For Cables Investment Trust and Electra Investm (South Africa) the net asset value has been shown. Bu political uncertainties, Central African Investment T would have been valued on the same basis but they been included at their original cost as 'a more pru course'. The remaining unquoted holdings in assoc companies are included at net asset values under 'C investments', which also includes other unquoted in ments valued on the basis of the information availab the board.

Investment spread

Investments quoted in North America have been va to include only 75 per cent of the dollar premium, the making allowance for the 25 per cent of the proceeds w has to be surrendered to the Bank of England at the qu rate without premium when an investment is sold. total investment value of £69,639,000 is spread over direct investments which are analysed by classification geographical distribution in the table included in reprint.

No comparative figures are provided in the table bec last year the sum analysed included the unquoted in ments at book value only. The governor says, how

CABLE AND WIRELESS (HOLDING) LIMITED

CONSOLIDATED BALANCE SHEET, 31st DECEMBER, 1965.

	£	£	1964 £	1964 £
CAPITAL OF CABLE AND WIRELESS (HOLDING) LIMITED:—				
Authorised—				
Ordinary Stock	14,902,000		14,902,000	
128,391,165 Shares of 5s. each ..	32,098,000		32,098,000	
	£47,000,000		£47,000,000	
Issued—				
Ordinary Stock (transferable in units of 5s.)		14,902,000		14,902,000
CAPITAL RESERVES:—				
Share Premium Account	652,000		652,000	
Other Capital Reserves	2,818,000	3,470,000	2,818,000	3,470,000
REVENUE RESERVES:—				
General Reserves	2,540,000		2,143,000	
Balances on Profit and Loss Accounts—				
Subsidiary Company	44,000		38,000	
Cable and Wireless (Holding) Limited	1,339,000	3,923,000	1,143,000	3,324,000
		22,295,000		21,696,000
5% DEBENTURE STOCK, 1972/77 ..		5,355,000		5,355,000
STAFF FUNDS:—				
Balance at the beginning of the year	242,000		226,000	
Deduct—Supplementary pensions and payments to secure pensions in respect of past services, less relief from taxation in respect thereof	36,000		10,000	
	206,000		216,000	
Add—Amount appropriated out of earnings	—	206,000	26,000	242,000
CURRENT LIABILITIES AND PROVISIONS:—				
Creditors	41,000		85,000	
Proposed final and special dividends of Cable and Wireless (Holding) Limited	744,000		662,000	
Provision for taxation	154,000		161,000	
Provision for renewal of heating plant	43,000	982,000	39,000	947,000
		£28,838,000		£28,240,000

INVESTMENTS (see Note I on page 13):—

	Valuation 1965 £	Valuation 1964 £	Book Value (Note 1 1965 £	Book Value (Note 1 19
Quoted—				
Great Britain ..	43,515,000	41,008,000	14,724,000	15,26
Abroad (Notes 1 *a* and *b*)	9,056,000	8,841,000	3,763,000	3,91
	52,571,000	49,849,000	18,487,000	19,17
Unquoted (Note 1 c)—				
Cables Investment Trust Limited ..	12,750,000	12,150,000	6,000,000	6,00
Electra Investments (South Africa) Limited	1,200,000	1,218,000	348,000	34
Central African Investment Trusts ..	652,000	779,000	652,000	65
Other Investments ..	1,216,000	1,047,000	728,000	59
	68,389,000	65,043,000	26,215,000	26,76
Loans to Local Authorities	1,250,000	200,000	1,250,000	20
	£69,639,000	£65,243,000	£27,465,000	£26,96

	£	£	1
Aggregate Book Value as shown above ..		27,465,000	26,96
LAND AND BUILDINGS:—			
Freeholds, at cost	1,076,000		
Less—Amounts written off	248,000	828,000	83
CURRENT ASSETS:—			
Debtors	195,000		11
Balances at Bankers (London and abroad) and Money at call	350,000	545,000	32
		£28,838,000	£28,24

The Notes on page [347] form an integral part of this Consolidated Balance Sheet.

that there have not been any material changes in the spread of investments except that, for the first time, 1·8 per cent is represented by loans to local authorities.

In the profit and loss account the alterations in presentation are not so obvious. Income from investments, which does not include the abnormal dividends received from associated companies, has been divided so as to show separately the income from quoted and unquoted investments and the additions in respect of overseas taxation.

Modified treatment

The directors' report refers to the modified treatment of certain items in order to provide a more concise evaluation of the year's earnings. The staff bonus, based upon the rate of dividend paid to stockowners, is now included in the administration expenses instead of being shown as an appropriation of the year's earnings. The cost of providing full pension benefits attributable to service during the ye is also charged as an expense and the costs of paying (providing pensions in respect of past services are charge against the staff fund.

Hitherto, the additional cost of providing for the in provement in the pension benefits introduced in and sinc 1956 has been charged against the staff fund, whilst per sions paid in respect of past services and the cost of prc viding for future pensions on the pre-1956 basis have bee included in the expenses of the year. The figures for 196 have been revised in the same way so that they provide true comparison.

An up-to-date evaluation of the services rendered by tl executive directors to the company and to the two princip associated companies, respectively, indicates that much (their time is now being given to the affairs of the associate companies, and those companies have consequently agree

CABLE AND WIRELESS (HOLDING) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1965.

	£	£	1964 £	1964 £
Income (gross) from Investments excluding that part of dividends from Associated Companies covering periods exceeding twelve months (see below)—				
From Quoted Investments ..		2,618,000		2,376,000
From Unquoted Investments ..		504,000		419,000
Addition in respect of overseas taxation		243,000		222,000
		3,365,000		3,017,000
Income from Property (after providing £4,000 for renewal of heating plant and writing £7,500 off cost of freehold buildings)		109,000		116,000
Sundry Interest and other Receipts ..		64,000		20,000
		3,538,000		3,153,000
Administration and General Expenses (including Directors' Remuneration —see Note 4 [next column] and Directors' Report)	125,000		128,000	
Interest on Debenture Stock ..	268,000		268,000	
		393,000		396,000
Earnings for the year before Taxation		3,145,000		2,757,000
Taxation on the Earnings for the year				
Income Tax	1,225,000		1,070,000	
Profits Tax	59,000		69,000	
Corporation Tax at 40% on earnings of Subsidiary Company	46,000		—	
		1,330,000		1,139,000
Earnings for the year after Taxation		1,815,000		1,618,000
Balance of Dividends from Associated Companies (£195,000) excluded above, less Income Tax (£76,000) ..		119,000		—
		1,934,000		1,618,000
Earnings retained in accounts of Subsidiary Company—				
Amount appropriated to General Reserve	60,000		40,000	
Amount added to Unappropriated Earnings	6,000		9,000	
		66,000		49,000
Balance carried to Appropriation Account		£1,868,000		£1,569,000

The Notes [next column] form an integral part of this Account

APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1965.

	£	£	1964 £	1964 £
Balance brought from Consolidated Profit and Loss Account		1,868,000		1,569,0
Appropriations—				
Dividends paid or proposed, less Income Tax—				
Interim dividend of 6¾ per cent. (1964—6½ per cent.)	591,000		570,000	
Proposed final dividend of 6¾ per cent. (1964—7½ per cent.) ..	591,000		662,000	
Proposed special dividend of 1¾ per cent. in respect of abnormal income	153,000		—	
	1,335,000		1,232,000	
Amount transferred to Staff Fund ..	—		26,000	
Amount transferred to General Reserve	337,000		250,000	
		1,672,000		1,508,0
Unappropriated Balance		196,000		61,0
Balance from previous year brought forward		1,143,000		1,082,0
Balance carried forward as shown by Balance Sheet		£1,339,000		£1,143,0

NOTES ON THE ACCOUNTS

1. INVESTMENTS
   (a) In the case of investments acquired with foreign currency cost is based (the rates of exchange ruling at the time of acquisition.
   (b) The valuation of the quoted investments represents the market valu In the case of overseas investments this is calculated at current rates exchange or at London prices where appropriate (including 75% of t dollar premium—1964 100%).
   (c) In the case of unquoted investments in Associated Companies the valuati represents the net asset values (for 1965—at 30th September) exce for the Central African Investment Trusts which for 1965 are valued no more than cost in view of the political uncertainties. In the case other investments (unquoted) the valuation is based upon the inform tion available to the Directors.
   (d) The book value of the investments represents cost less net surplus (realisations, except for the £3,000,000 ordinary stock of Cables Inve ment Trust, being one-half of the issued capital, which is shown at co plus £4,665,000 appreciation added at 31st December, 1960.
   (e) There are future liabilities of £5,600 and contingent liabilities of £12,5 (1964 £5,000 and £12,500 respectively).
2. CAPITAL GAINS TAX
   There is no liability to Capital Gains Tax in respect of realisations during 19(
3. CURRENT BALANCES ABROAD
   These are valued at current rates of exchange.
4. DIRECTORS' REMUNERATION

	£	1964 £
The remuneration from all sources of the Directors of Cable and Wireless (Holding) Limited for services to the Company and Subsidiary Company—		
Directors' Fees	9,244	8,3
Other Remuneration	62,456	69,5
	71,700	77,8
Less—Fees received by Directors from other companies and accounted for by them to Cable and Wireless (Holding) Limited	18,000	19,5
	53,700	58,3
Deduct—Amounts recovered from Associated Companies in respect of remuneration, etc., paid to Executive Directors	10,855	—
	£42,845	£58,3

underlying equities. Correction of this position, the potential effect of corporation tax on dividends generally and the loss of double taxation relief point to a possible reduction in investment income in 1967 when income, it is suggested, may be under the 1964 level.

(HOLDING) LIMITED

TEN-YEAR RECORD OF THE COMPANY AND THE SUBSIDIARY COMPANY

(Summarised from the published Group Accounts)

Year to 31st Dec.	Gross Income	Earnings after Taxation	Net Distribution to Stockowners	INVESTMENTS	
				Book Value	Valuation (see Note)
	£	£	£	£	£
1956 ..	1,525,000	620,000	348,000	15,421,000	22,810,000
1957 ..	1,593,000	662,000	348,000	15,727,000	21,539,000
1958 (*a*) ..	1,731,000	742,000	435,000	17,130,000	28,684,000
1959 ..	1,869,000	847,000	482,000	17,467,000	39,578,000
1960 (*b*) ..	2,144,000	1,022,000	599,000	22,859,000	42,310,000
1961 (*c*) ..	2,346,000	1,162,000	782,000	25,360,000	49,112,000
1962 ..	2,663,000	1,346,000	1,037,000	25,994,000	50,453,000
1963 ..	2,854,000	1,439,000	1,037,000	26,227,000	58,927,000
1964 (*d*) ..	3,153,000	1,618,000	1,232,000	26,963,000	65,243,000
1965 ..	3,538,000	1,815,000 119,000 (*e*)	1,182,000 153,000 (*e*)	27,465,000	69,639,000

NOTE.—For the years 1956–1963 the valuation is based on market values for quoted holdings and on book values for unquoted holdings. In 1960 the book value of the unquoted holdings in Cables Investment Trust Limited was written up by £4,665,000 a sum commensurate with the appreciation in the value of that holding during the preceding ten years. For the years 1964 and 1965 the unquoted holdings are included at the estimated net asset value for associated companies and at the Directors' valuation for other investments.

CITY NOTES

GENERAL Election time is hardly a period for mature investment considerations and the stock-market currently reflects speculative rather than true investment business. Professional in-and-out operations in steel shares are not unlike their counterpart operations in sterling in the foreign exchange market.

In steel shares the jobbers try to be one move ahead of the punters just as the Bank of England tries to be a move ahead of the foreign exchange speculators, although foreign exchange speculation is probably a more deep-rooted exercise.

General market opinion is that the return of a Labour Government with a working majority would be followed by speculative mistrust of sterling, and the current atmosphere of pressure against sterling through still higher United States interest rates is not exactly helpful.

The February trade figures, although showing record exports, also showed that the level of imports remains disappointingly, if not alarmingly, high. The possibility of further restrictions to damp down home demand seems real, but direct moves towards limitation of imports are a rather more likely prospect.

Against such a background neither the foreign exchange nor the stock-markets appear likely to move on to a firm or settled basis for some time.

* * * *

THE recent interim report from the Doxford and Sunderland Shipbuilding and Engineering Company was a fresh pointer to the need for an entire reappraisal of the shipbuilding industry. The Doxford and Sunderland company is losing money because sharply rising costs have overtaken fixed-priced contracts. Further than that, it seems that contracts for delivery in the next two years are already doomed to losses because of the rising cost factor. The forthcoming report on the shipbuilding industry is expected to recommend rationalization and regrouping, and while that may provide part of a solution to the longer-term problem, it is difficult to see what short-term measures can be taken to correct the rapidly accumulating losses.

* * * *

THE impact of Government restrictions on major road and building programmes is already beginning to show up in company results. The Stothert & Pitt Company, despite virtually maintained sales in the second half of 1965, reports profits down from £354,000 to a mere £30,000 pre-tax. The reasons are a serious shortfall in demand for construction equipment, and exceptionally low profits on crane contracts taken at competitive fixed prices. Company results on Stothert & Pitt's lines – although possibly not as drastic – will become more frequent over the next few months.

* * * *

AS the equity market, in index terms, moved towards a twelve months peak last month, the unit trusts attracted more money then ever before. Net new investment in the movement in February totalled over £14·4 million – during the month there were eleven new block offers of units, the majority of them in high-yielding trusts, and three new flotations.

When there was very similar new offer and block offer activity in February last year, the net money intake was under £6 million. The value of trust funds at the end of February was at a new peak of £566·8 million – a rise of £112 million on the February 1965 level.

RATES AND PRICES

Closing prices, Tuesday, March 15th, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 8, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Jan. 7 ..	£5	10s	5·20d%	Feb. 11 ..	£5	11s	3·91d%
Jan. 14 ..	£5	9s	9·73d%	Feb. 18 ..	£5	12s	1·90d%
Jan. 21 ..	£5	9s	0·33d%	Feb. 25 ..	£5	12s	4·78d%
Jan. 28 ..	£5	9s	8·03d%	Mar. 4 ..	£5	12s	4·49d%
Feb. 4 ..	£5	10s	1·22d%	Mar. 11 ..	£5	12s	2·26d%

Money Rates

Day to day ..	4⅜–5½%	*Bank Bills*	
7 days	4¼–5⅝%	2 months ..	5 15/16–6%
Fine Trade Bills		3 months ..	5 15/16–6%
3 months ..	7–7½%	4 months ..	5 15/16–6%
4 months ..	7–7½%	6 months ..	5 15/16–6%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2.79 31/32	Frankfurt ..	11·21 13/16
Montreal ..	3·00 13/16	Milan	1747 13/32
Amsterdam ..	10·11 3/32	Oslo	19·99 3/16
Brussels	139·21	Paris	13·70 9/16
Copenhagen ..	19·28½	Zürich	12·13 11/16

Gilt-edged

Consols 4% ..	59	Funding 6% 1993 ..	90⅛
Consols 2½% ..	37 5/16	Savings 3% 60–70 ..	84⅞
Conversion 3½% ..	51 5/16	Savings 3% 65–75 ..	73 13/16
Conversion 5% 1971	92⅝	Treasury 6½% 1976	99
Conversion 5¼% 1974	91⅞	Treasury 3½% 77–80	73⅝
Conversion 6% 1972	97¼	Treasury 3½% 79–81	70⅝
Funding 3½% 99–04	57⅞	Treasury 5% 86–89	79¼xd
Funding 4% 60–90	93 1/16	Treasury 5½% 08–12	82 1/16
Funding 5¼% 78–80	87⅜	Treasury 2½% ..	36 11/16
Funding 5½% 82–84	88⅝	Victory 4%	95⅞
Funding 5¼% 87–91	87¼	War Loan 3½% ..	52 5/16

ses for Articled Clerks

ındon and District Society of ınts

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Society in booklet form
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rticles so that the clerk may use the entitlement to attend courses. It is envisaged that the nine weeks' leave in particular will be used for attendance at three courses – the first at the beginning of service, the second after the Intermediate (as a beginning of preparation for the Final Part I) and the third after the Final Part I (as a beginning of preparation for Final Part II). These courses are not aimed directly at an examination; they are intended to concentrate on the wider aspects of the clerk's education.

(5) *The Council expects that principals will send their articled clerks to courses at the appropriate points in their service. The organization of the courses is designed for that purpose so that a principal will have no difficulty in fulfilling the obligation into which he has entered in the articles.*

Where to go?

(6) The fifteen colleges participating in the new programme of courses are:

Balham and Tooting College of Commerce
Department of Accountancy Studies
Tooting Broadway, SW17. (Tel. Balham 1004.)

Catford College of Commerce
Plassey Road, Catford, SE6. (Tel. Hither Green 4843.)

City of London College
Moorgate, EC2. (Tel. Monarch 8112–4.)

City of Westminster College
Francis Street, SW1. (Tel. Victoria 4877.)

Ealing Technical College
St Mary's Road, Ealing, W5. (Tel. Ealing 0162/1162.)

Enfield College of Technology
Queensway, Enfield, Middx. (Tel. Howard 1126.)

Holborn College of Law, Languages and Commerce
Red Lion Square, WC1. (Tel. Holborn 2889.)

Kingston College of Technology
Penrhyn Road, Kingston upon Thames. (Tel Kingston 1127.)

Luton College of Technology
Park Square, Luton, Beds. (Tel. Luton 29441, ext. 35.)

Oxford College of Technology
Oxford. (Tel. Oxford 63434.)

Regent Street Polytechnic
Regent Street, W1. (Tel. Langham 2020.)

Slough College
William Street, Slough, Bucks. (Tel. Slough 27511.)

South East Essex College of Technology
Longbridge Road, Dagenham, Essex. (Tel. Goodmayes 3966.)

South West Essex Technical College
Forest Road, Walthamstow, E17. (Tel. Larkswood 2272.)

West London College
Airlie Gardens, Campden Hill Road, W8. (Tel. Park 4550.)

(7) For the 1966–67 session the main effort is directed to the provision of introductory courses for newly articled clerks [a summary of these courses is shown below]. Details are also given, however, of courses at later stages in articles. The availability of these later courses is of prime importance and can lead to a planned programme of tuition for the clerk over the whole period of service. Apart from their high reputation generally in the accountancy field, all fifteen colleges are able to provide high standard courses up to Final level. This was the principal reason why they were invited by the district society to participate in the programme. While, for this session, Enfield, Holborn, Oxford and South East Essex are offering only a limited number of courses, these colleges will participate fully in future years.

(8) The colleges and district society have collaborated fully in the planning of the courses. Many members of the Institute are on the staffs of the colleges. In addition special representatives, one to each college, are being appointed by the society from its members to ensure close liaison. The society is also establishing a panel of members willing to assist with lectures at the courses.

(9) The pattern of the introductory courses offered will be generally as follows:

(a) *An introduction to the structure of industry and commerce.* A practical and elementary introduction to business adminstration, organization and operation.

(b) *The place of the accountancy profession and of the Institute in the modern world.* This will include lectures by members of the Institute on the chartered accountant in practice and in industry, on the Institute (past, present and future); and on professional matters.

(c) *Fundamentals of book-keeping and accounting.* The concept of the balance sheet and of double entry is basic to accounting work. The course will cover both, stressing the underlying principles and showing the relation of one to the other and of both to the profit calculation and the flow of funds statement. The link between original data and accounting records will be introduced in outline.

(d) *Auditing.* An introduction to auditing including principles, purposes, history and methods.

(e) *Law.* An introduction to the English legal system and the fundamental concepts. This will help to give meaning to the later detailed professional studies.

(10) After the course, colleges if asked to do so will provide a report to the principal on the clerk's ability and progress.

When to go?

(11) It is important that the student should attend an introductory course at the earliest state of articles – or even before articles commence. There is indeed no need to wait until articles are signed. *Introductory courses are designed for students either in the first two months of articles or in the two months preceding entry into articles.* For example, many clerks will be entering articles between September and November; they will be expected to attend a course during the period July and December in that year. At latest clerks should attend introductory courses before the expiration of two months of their service under articles. Where a clerk attends a course prior to entry into service the Council accepts that it is in order for the principal to reduce the period of study leave allowed during the period of articles. The Council has issued the following statement on this subject:

ARTICLED CLERKS COURSES AND STUDY LEAVE

The Council approved the proposal of the Articled Clerks Committee that the committee should accept for registration in the following circumstances articles of clerkship in which the prescribed periods of study leave have been reduced. The period of nine weeks' leave other than immediately before examinations may, with the consent of the parties, be reduced by any period spent by the articled clerk in following an acceptable introductory course as an employee of his principal's firm before the first day of his service under articles. When the articles are submitted for registration, they should be accompanied by a letter specifying the course attended with dates.

(12) If it proves impracticable for a student to attend an introductory course in the period of four months referred to above, he should not be deterred from attending an introductory course at a later stage of service. Principals will, however, appreciate that the value of an introductory course is enhanced by early attendance and that it is not in the best interests of students to mix students at varying stages of professional experience.

How much does it cost?

(13) Fees are moderate as the colleges are all within the public educational system. There will be some variation according to the age of the student and the length and nature of the course. For example, in many cases no fee at all will be required for a student under 18; in others the normal fee for an introductory course will range from £3 to £5. Fees for courses at later stages in articles may be slightly higher. Full details of all fees are obtainable from the college.

INTRODUCTORY COURSES AVAILABLE MONTH BY MONTH OVER THE SESSION AUGUST 1966 TO JULY 1967

Month	*Number of courses available*	*Name of College*
August 1966	1	Balham and Tooting.
September 1966	15	Two courses at Catford, Oxford, Slough, West London. One course at City of London, City of Westminster, Ealing, Enfield, Luton, South East Essex (Dagenham), South West Essex (Walthamstow).
October 1966	11	Two courses at City of Westminster, Ealing, South West Essex (Walthamstow). One course at Catford, City of London, Holborn, Luton, West London.
November 1966	6	Balham and Tooting, Catford, City of Westminster, Ealing, South West Essex (Walthamstow), West London.
December 1966	Nil	—
January 1967	1	Balham and Tooting.
February 1967	8	Two courses at City of Westminster and West London. One course at Catford, Enfield, Luton, South West Essex (Walthamstow).
March 1967	4	One course at Balham and Tooting, Catford, City of London, Ealing.
April 1967	3	Ealing, Slough, South West Essex (Walthamstow).
May 1967	Nil	—
June 1967	1	Balham and Tooting.
July 1967	1	Balham and Tooting.

›ed for Sound Judgement

ncil Member's Views at Manchester ›dents' Dinner

AKING as an accountant in industry, Mr S. Dixon, J.P., M.A., F.C.A., told mbers of The Manchester Chartered Accountants Students' Society at nnual dinner on March 3rd that he felt he could tell them what industry for from chartered accountants. Mr Dixon, who is a member of the l of the Institute, said that after they passed their Final examination they hink all their worries were over. But this was wrong, for although they e called chartered accountants, all they would have acquired up to that as knowledge – and knowledge and wisdom were not the same thing.

all knew that if a balance sheet present a true and fair view, must qualify their report as . But no textbook would tell the point at which a report was true and fair became false l. This was learned only by or experience, or the ability to und judgements.

›d in integrity'

as the thing which people in y looked for – sound judgement. order to make sound judge- it was necessary to get to know handle men. Sound judgements so be rooted in integrity – and in was what people in industry for.

Dixon said that an accountant etween the taxpayer and the or of Taxes and was trusted by these days, too many members community thought that any was fair with which to fight the or. But accountants, as mem- a great profession, had to o them that there were stan- hich accountants must uphold sts, even if it meant losing the

king an annual audit was the ntribution the profession made, dustry did not think very much e was not suggesting that the audit was unnecessary. But in few years, accountants had been able to make a tremendous contribution to industry.

Accountancy was a new weapon, a new tool of management. It was up to members of the Institute to see that they gave that service because if they did not, others would.

Proposing the toast to the Society, His Honour T. A. C. Burgess, Vice-Chancellor of the County Palatine of Lancaster, said that unless an accountant had a client who was a fraudulent rogue, practically every branch of the law in which he was concerned was assigned to the Chancery Division.

There were in London seven judges who dealt with Chancery work as there was also the lone figure of the Vice-Chancellor of the County Palatine of Lancaster, who had exactly the same powers in the North-west as the seven judges.

He added that what was assigned to the Chancery Division included everything which came under the Companies Act, the law of partnership, the execution of trusts and wills and 'the most difficult subject of all – income tax'.

The Vice-Chancellor wished every success to those who had begun in what he described as the most arduous profession of all.

Responding, Mr D. H. Adams, a student member of the Society's committee, said that the Society was in existence not only to help members to become academically qualified, but also to enable them to meet socially. The committee, he said, had always felt that articled clerks did not take enough advantage of the facilities the Society had to offer.

Other duties, too

The President of the Society, Mr L. Bowyer, F.C.A., proposed the toast of The Institute of Chartered Accountants in England and Wales and the Guests. He said that the post of president was rather like those advertisements for the Army which said: 'Join the Army and See the World'. It was true that you saw some of the world, but you had to do a lot of other things as well.

Referring to the guests, Mr Bowyer made special mention of the Vice-Chancellor; Mr S. Dixon; the Rev. Canon Eric Saxon, B.A., B.D., Rural Dean of Manchester Cathedral Deanery; Mr J. L. Thorpe, H.M. District Inspector of Taxes for Manchester, No. 1 District; Mr N. Jenkins, President of Manchester Junior Chamber of Commerce; and Mr J. A. Hamer, F.C.A., Vice-President of the Manchester Society of Chartered Accountants.

At the conclusion of the toasts and responses, Mr M. Colin, a student member of the committee of the Society, proposed a vote of thanks to Mr Bowyer for his work as President.

Retirement of Miss Ritchie

Mr Bowyer thanked Mr Colin and added that although he was chairman of the dinner committee, all the work had been done for the event by Miss Isabel Ritchie, assistant secretary of the Society and of the Manchester Society of Chartered Accountants.

When the toastmaster called on Miss Ritchie to speak, she said that she had decided to retire and had notified the senior society.

The students gave three cheers for Miss Ritchie, who has been assistant secretary for over fifteen years.

In Parliament

Tax Reserve Certificates

Mr J. H. Osborn asked the Chancellor of the Exchequer whether tax reserve certificates purchased by a company may be utilized in future in payment of corporation tax or in payment of income tax deducted from dividends to shareholders.

Mr MacDermot: It was announced some time ago that tax reserve certificates of the present series and of future series may be used for payment of corporation tax. My right hon. friend has now decided that they may also be used for payment of capital gains tax. Future series held by companies will not be available for payment of income tax deducted from dividends.

Mr Osborn: Is the hon. and learned gentleman aware that the last part of his answer will cause disappointment? We welcome the fact that he is able to give this statement now, but is it not a little late – twelve months after the Finance Act? Will he now make certain that the usual channels are aware of this information, so that industries which have not known where to go may now obtain the correct advice?

Mr MacDermot: Full particulars will be available in the new prospectus for any new series. This is not the occasion either for great surprise or disappointment. Income tax on dividends is not a tax on company profits; it is a tax on shareholders' incomes, which is paid by the company as collecting agent. The analogy is that of P.A.Y.E., and tax reserve certificates have never been available for that.

Mr Peter Emery: But does not the hon. and learned gentleman realize that the tax situation has been greatly altered since last year's Finance Bill, that new principles now have to be observed by firms, and that there is a considerable pressure for the Chancellor to reconsider this matter so that the latter part of the answer could be reversed?

Mr MacDermot: I am aware that substantial changes have been made in our taxation system by last year's Finance Bill. The decision made is clearly in accordance with the principles on which those tax reforms were based.

Hansard, February 22nd, 1966. Oral answers, col. 218.

Investment Incentives

Mr Lubbock asked the President of the Board of Trade if he will circulate in the *Official Report* a revised version of Table 2, page 7, of the National Economic Development Council's booklet, *Investment Appraisal*, showing the after tax net cash flow under the new investment grant proposals, the discounted value of the cash flow for each year, and the total discounted value for the seventeen years, assuming corporation tax to be at the rate of 35 per cent and 40 per cent respectively.

Mr Jay: Revision of material contained in the booklet to which the hon. Member refers would be a matter for the National Economic Development Council. The Government have, however, made some calculations of the benefits of the new system of investment incentives on the two assumptions about the rate of corporation tax suggested by the hon. Member. A table containing this information is set out below.

CASH RECOVERIES ON £100 INVESTED IN NEW PLANT OR MACHINERY ELIGIBLE FOR GRANT UNDER THE NEW SCHEME OF INVESTMENT GRANTS, AS COMPARED WITH THE SYSTEM OF INVESTMENT ALLOWANCES, WHEN THE SCHEME IS IN FULL OPERATION.

	Cash recoveries not discounted (i) *Within 18 months*	(ii) *Subsequently*	(iii) *Total*	*Cash recoveries discounted at 7% p a.* (iv) *Total*
A. ASSUMING CORPORATION TAX AT A RATE OF 35 PER CENT				
	£	£	£	£
(1) *Investment Allowance System*				
(a) National rates	19·25	26·25	45·50	34·49
(b) In development districts	50·95	—	50·95	46·63
(2) *Investment Grants System*				
(a) National rates	24·20	23·80	48·00	38·62
(b) In development areas	43·15	17·85	61·00	53·13
B. ASSUMING CORPORATION TAX AT A RATE OF 40 PER CENT				
	£	£	£	£
(1) *Investment Allowance System*				
(a) National rates	22·00	30·00	52·00	39·43
(b) In development districts	56·80	—	56·80	51·92
(2) *Investment Grants System*				
(a) National rates	24·80	27·20	52·00	41·38
(b) In development areas	43·60	20·50	64·00	55·20

Notes on Table:

(i) For the purpose of calculating annual allowances, it has been assumed that the plant or machinery is retained for ten years and that the annual allowance for tax purposes is 15 per cent on the reducing balance.

(ii) It has been assumed that the firm would have earned sufficient taxable profits to take full advantage of tax allowances at the earliest possible date.

(iii) In column (iv), total cash recoveries have been discounted back to the time of the investment expenditure.

(iv) In setting out the benefits in development districts under the former system, allowance has been made for free depreciation and for a 10 per cent standard grant under the Local Employment Acts.

Hansard, March 1st, 1966. Written answers, col. 278.

Easter Offerings, Etc.: Tax Exemptions

Mr TEMPLE asked the Chancellor of the Exchequer what official consultations he has had since the passing of the Finance Act, 1965, on the question of exempting Easter and similar offerings to ministers of religion from taxation; and whether he will make a statement.

Mr MACDERMOT: My right hon. friend the Minister without portfolio discussed this matter with a deputation from the Churches Main Committee last autumn. I am afraid that the difficulties of principle involved in the suggested exemption remain conclusive against it.

Hansard, March 7th, 1966. Written answers, col. 435.

Income Tax: Collection and Repayments

Mr WALL asked the Chancellor of the Exchequer what special instructions have been given to the Inland Revenue collectors of taxes to speed up the payment of tax; and why equal effort has not been made to repay over-taxation after claims have been submitted.

Mr DIAMOND: It has always been the duty of Collectors of Taxes to obtain prompt payment of tax, and no special instructions have been issued recently. As regards repayments, the Inland Revenue endeavour to deal with taxpayers' claims as speedily as possible.

Hansard, March 9th, 1966. Written answers, col. 568.

Post-war Credits

Mr PETER WALKER ask
cellor of the Exchequer
the value of Post-war Cr
each of the last ten y
amount, including inte
standing.

Mr DIAMOND: On th
the question I would
Member to Table 58
Report of the Com
Inland Revenue (Cmn
estimated amount stil
is £256 million, includi
accrued interest.

Hansard, March 9th,
answers, col. 567.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS CALLINGHAM, BROWN & Co, Chartered Accountants, of 38 Finsbury Square, London EC2, announce with deep regret the death on March 5th, at the age of 71, of Mr R. W. COVINGTON, F.C.A., senior partner in the firm since 1951. The practice will be continued under the same style by the remaining partners.

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND announce that their South African firm have opened an office at Barclays Bank Building, Mbabane, Swaziland.

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND announce that their new address in Newcastle, Australia, is National Mutual Life Building, 21 Bolton Street (P.O. Box 798), Newcastle, N.S.W.

MESSRS WYKES & Co and MESSRS PEAT, MARWICK, MITCHELL & Co, who have been associated in Leicester since 1954, announce that they are now carrying on the practice at 24 Friar Lane, Leicester, under the name of PEAT, MARWICK, MITCHELL & Co as well as WYKES & Co.

Appointments

Mr Geoffrey Barlow, F.C.A., director and secretary of Abel Heywood & Son Ltd, Manchester, has been appointed joint assistant managing director of the company.

Mr Richard M. Boniwell, F.C.A., has been appointed chief accountant of Powell Duffryn Ltd and the Powell Duffryn Group.

Mr C. A. French, F.S.A.A., A.I.M.T.A., chief accountant and deputy financial adviser to the Electricity Council, has been appointed financial adviser from June 1st, in succession to Mr J. M. Drummond, F.S.A.A., F.I.M.T.A., who retires on May 31st.

Mr J. H. Howatt, A.C.A., has been appointed an executive director of Reed Executive Ltd.

Mr D. J. Montier, A.C.A., has been appointed assistant secretary of Shaw Savill & Albion Co Ltd.

Mr Francis Herbert Newman, C.A., finance director of the National Coal Board's Northumberland and Durham Division, has been appointed an additional deputy director general of finance at the Board's London headquarters from May 18th.

Mr Robert W. Nickalls, A.C.A., has been appointed company secretary/chief accountant of Charles Tennet (Contractors) Ltd.

PUBLIC SCHOOLS CC

Chartered Accountan
Member

Mr John Davies, M
Director-General, Con
British Industry, has b
by the Secretary of State
and Science as the indust
of the Public Schools C

CARPET INDUSTRY BOARD

Chartered Accountan
Chairman

Mr J. B. Ransome,
partner in the firm of
Wise, & Co, Chartered
of London, has been ap
Minister of Labour as
the Carpet Industry T
following its establish
Minister as from March

THE INSTITUTE OF WORKS ACCOU

Belfast Lunch

The President of The In
and Works Accounta
Hodgson, F.C.A., F.C.W
luncheon party on Thu
10th, at the Midland H
Those present were:
A.C.W.A., F.C.I.S., Mr S
A.C.A., F.C.W.A., Sir Ro
E.R.D., D.L., J.P., chairm
Kinahan Ltd, Mr A. R.
A.C.A., A.C.W.A., Aldern
McKee, E.R.D., J.P., a
Mayor of Belfast, Mr J. I

F.C.W.A., A.S.A.A., Mr L. Stewart, secretary, G. Heyn & Sons Ltd, Mr W. T. Underwood, M.A., F.C.A., chief accountant, Harland & Wolff Ltd, Mr S. E. Woods, J.P., F.C.W.A., F.A.C.C.A., Mr M. H. Walters, C.B.E., Secretary of the Institute.

Luncheon in Leeds

The President also gave a luncheon party on Wednesday, at the Hotel Metropole, Leeds. Those present were: Mr J. Busfield, F.C.A., director, Crofts Engineers (Holdings) Ltd; Mr W. Deighton, A.C.W.A., F.C.I.S.; Mr E. Emmerson, F.C.A., F.C.W.A.; Mr F. M. W. Hird, F.C.A., F.C.W.A.; Mr N. Hodgson, financial director, John Waddington Ltd; Mr H. D. Lyttleton, M.B.E., F.C.W.A.; Mr H. L. Watson, F.C.A., director, Grattan Warehouses Ltd; and Mr Walters, the Secretary.

JOINT DIPLOMA IN MANAGEMENT ACCOUNTING

Progress Report

Over a thousand inquiries have been received at the offices of the Joint Diploma Board since the scheme was officially inaugurated on January 1st. It is anticipated that by the end of April about forty applicants who have been exempted from the Part I examination, under the transitional arrangement for the 'over forties', will have appeared before interviewing panels for experience in the Part II examination.

To date, 224 holders of the Fellowship in Management Accounting of The Institute of Cost and Works Accountants have been awarded the diploma. These comprise: 95 I.C.W.A. members; 68 English Institute/I.C.W.A. members; 21 Scottish Institute/I.C.W.A.; 2 Irish Institute/I.C.W.A.; 38 Association/I.C.W.A. The Joint Diploma Board recommend that the J.Dip.M.A. designation should appear immediately after that (or those) of the participating body (or bodies) of which the holder is a member.

As already announced, the first Part I examination will be held from June 14th to 16th, and the closing dates for submitting applications are: Forms 1 and 2 (personal particulars and details of experience since qualifying), April 1st; Form 3 (application to sit the examination, after approval by the Joint Board of candidates' experience as shown in Form 2), April 29th. Forms may be obtained from the Board's offices at Swan Chambers, Great Swan Alley, London EC2.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

Taxation Study Conference

A Taxation Study Conference is being held by the London and District Society of Chartered Accountants at the Hotel Metropole, Brighton, from next Thursday evening, March 24th, to lunchtime on Sunday, March 27th.

The conference, which will be opened by Sir Henry Benson, C.B.E., F.C.A., Vice-President of the Institute, is aimed at instructing the participants in the basic principles of the new legislation, as well as giving them opportunities for exchange of views and general discussion. Over three hundred members will be attending and will be divided into twenty-five study groups; the groups will meet after each of the six papers to be presented as follows:

Thursday. 'Economic concepts behind the Finance Act, 1965', by Professor A. J. Merrett, B.SC. (ECON.).

Friday. 'Corporation tax – 1. The close company', by Mr G. H. Vieler, F.C.A.

'Capital gains tax – 1. Basic principles', by Mr S. B. Tabaxman, F.C.A.

'Corporation tax – 2. Tax planning for the small business', by Mr Halmer Hudson, F.C.A.

Saturday. 'Capital gains tax – 2. Settlements and deceased estates', by Mr F. A. Bevis, M.A., LL.B., A.C.A.

'Treatment of taxation in company accounts after the Finance Act, 1965', by Mr K. A. Sherwood, A.C.A.

In addition to the speakers, six recognized authorities on taxation matters have volunteered to attend as technical advisers. They are Messrs L. H. Clark, F.C.A., Derek R. Gray, F.C.A., Eric C. Meade, F.C.A., K. H. Oates, F.C.A., E. E. Ray, B.COM., F.C.A., and John E. Talbot, F.C.A.

The conference, which will be under the chairmanship of Mr B. E. Basden, M.A., F.C.A., has been largely organized by the members of the London and District Society specialist Tax Study Groups from which the majority of the speakers and technical advisers are drawn.

THE CHARTERED ACCOUNTAN BENEVOLENT ASSOCIATION

At a recent meeting of the Execut Committee the chair was taken by William Carrington, F.C.A., Presid of the Association, and ten memb were present.

Applications for assistance

Eight new applications for assista were considered; in four cases gra or donations already made for imme ate need were confirmed; in th cases a grant was made and in case a nomination was given for en into a home of Crossways Trust.

One of the new applications from a member who had a stroke year. The committee confirmed action already taken by the Presid in meeting mortgage commitme from November 1965 by way of a l and in making a grant of £30 a mo from January 1966.

Twenty-six applications for rene of assistance were considered; fifteen cases the grant was renew in six cases it was increased and two cases reduced owing to impro circumstances; no further grant given in two cases and considerat of one application was deferred pe ing further information.

Special Fund

One new application for assista was considered from a married cl suffering from an incurable dise who had had to give up his empl ment in a professional office. Pend further investigation a donation given.

The grant of one applicant further assistance was renewed.

Changed circumstances of beneficiar

Twenty-five cases were reported which circumstances had chan during the last three months. Secretary was pleased to report six beneficiaries were no longer need of assistance owing to impro circumstances; in other cases dc tions were given or grants adjustec was reported that since the meeting five beneficiaries had d two being residents in the home Crossways Trust.

Board of Governors' Annual Mee

The annual meeting of the Boar Governors of the Chartered countants' Benevolent Association be held next Thursday, at 2.15 p at Eileen House, 26/34 Old St London EC1.

SW. ESSEX GROUP OF CHARTERED ACCOUNTANTS

At the next meeting of the South West Essex Group of Chartered Accountants to be held on Friday, April 1st, at 'St Aubyns', 34–36 Eastern Road, Romford, Essex, at 6.15 for 6.45 p.m., the topic for discussion will be 'Audit and industry'. The purpose of the meeting is to discuss the relationship of the internal auditor to the statutory auditor and the industrial accountant, and their relative contribution to the overall efficiency of an organization. The meeting will be addressed by Mr A. M. Balmford, F.C.A., general auditor, Ford Motor Company Ltd.

Chartered accountants living or working in the area who may be interested in the Group's activities and wish to receive the monthly and other announcements which are made, are invited to communicate with the secretary, 187A South Street, Romford, Essex. Telephone Romford 44728.

CERTIFIED ACCOUNTANTS' WEEK-END SCHOOL

Members of The Association of Certified and Corporate Accountants are reminded of the residential school to be held at St John's College, Cambridge, from Friday, April 1st, to Sunday, April 3rd, on the theme 'New management techniques'. The inclusive cost to members is ten guineas and early enrolment is advised. Further details may be obtained from the Technical Officer, at the offices of the Association, 22 Bedford Square, London WC1.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

'Prices and incomes' will be the subject of an evening discussion to be opened by Mr P. S. Henman, M.INST.T. Chairman of The London Chamber of Commerce and of Transport Development Group Ltd, on Friday next, March 25th. The meeting will be held at the Waverley Hotel, Southampton Row, London WC1, preceded at 7.15 p.m. by a buffet supper (charge 8*s* 6*d* – students 5*s*). The discussion will close about 9.30 p.m. At 6.30 p.m., at the same address, the annual general meeting of the Fellowship will be held.

WAYS TO INVEST

Two revised booklets on methods of investment entitled *Seven Ways to Invest* (third edition) and *Put Your Money to Work* (second edition) have been issued by the Wider Share Ownership Council.

The first sets out seven different methods of obtaining shares – through a stockbroker, bank manager, investment trust companies, unit trusts, investment clubs, endowment assurance and employee shareholding schemes. Two appendices set out four company schemes for employee shareholding in the United Kingdom. Appendix A comprises three such schemes – those of Imperial Chemical Industries, Associated Electrical Industries and Rugby Portland Cement. Appendix B gives details of American thrift plans operating in the United States.

The second booklet examines some of the different ways of investing money, including national savings, local authority loans, building societies, investment trust companies and unit trusts. In addition, it discusses what variations are possibly suitable for the investor and what he wants from his investment.

Both booklets are obtainable free of charge from the Wider Share Ownership Council, 4 Angel Court, London EC2.

OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced the following Official Receiver appointments:

Mr Herbert William Kirkwood and Mr John Martin Christensen are to be Official Receiver and Assistant Official Receiver respectively for the Bankruptcy Districts of the County Courts of Hereford and Worcester.

The appointments of Mr John Francis O'Reilly as Official Receiver and Mr Alan Keith Sales as an Assistant Official Receiver for the Bankruptcy Districts of the County Courts of Hereford and Worcester have been revoked. Their appointments as Official Receiver and Assistant Official Receiver respectively for the Bankruptcy Districts of the County Courts of Dudley, Kidderminster, Leominster, Stourbridge, Walsall, West Bromwich and Wolverhampton remain unchanged.

The appointment of Mr Walter Scaife as an Assistant Official Receiver for the Bankruptcy Districts of the County Courts of Dudley, Hereford, Kidderminster, Leominster, Stourbridge, Walsall, West Bromwich, Wolverhampton and Worcester has been revoked. His appointment as an Assistant Official Receiver for the Bankruptcy Districts of the County Courts of Birmingham, Coventry and Warwick remains unchanged.

These changes took effect from March 1st, 1966, and are consequential upon the removal of the office of the Official Receiver Gloucester to Grosvenor House, Station Road, Gloucester, and the transfer to him of the administration of cases arising from the Bankruptcy Districts of the County Courts of Hereford and Worcester.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

MONDAY, MARCH 21ST.

Chess Club. – 6 p.m. in the Students' Society Common Room. All members are welcome to a game.

THURSDAY, MARCH 24TH.

Reading Branch. – Lecture at The White Hart, High Wycombe, at 7.15 p.m.

CORRECTION

In the reference to the affairs of Dunning & Son Ltd, under 'Finance and Commerce' in our issue of March 5th (page 292), the company's new auditors were given as Messrs Ross, Bailey & Smart. The correct name of the firm is, of course, Touche, Ross, Bailey & Smart, Chartered Accountants, of Edgbaston, Birmingham.

THE ACCOUNTANT
Established 1874

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The Recognized Weekly Journal for the Accountancy Profession throughout the World

ON OTHER PAGES

Group Pensions Survey

THERE are at present eight million people in Britain who are of pensionable age. Their circumstances vary widely, as the Allen Report on householders' rate burdens revealed, and such poverty as exists in the affluent society is undoubtedly to be found mainly in the homes of the elderly retired. Most of those in difficulties have been retired for some years, a large part of their working lives being pre-war when incomes were low, or during and after the war when taxation was high. One of the major factors which has contributed substantially to hardship among the retired is the continuing inflation which has severely diminished the real value of what all-too-often were at best modest savings.

Since the war, however, among the numerous social and economic changes which have raised living standards, the growth of occupational pensions schemes has been one of the more important. The expansion of such schemes has been as rapid in the public sector as in the private sector. An article in *Economic Trends* for May 1964 drew attention to the rapid growth of public sector pensions between 1953–64. The increase during the decade was due to the increased numbers employed in the public sector, to the inclusion of certain grades of manual worker in such schemes, and to the compulsory extension of the schemes to formerly unestablished staff.

Information on the growth of similar schemes for those employed in the private sector is neither so complete nor as up to date. What is apparent, however, is the rapid growth in such schemes as the weight of corporate taxation has risen – more especially during the era of E.P.T. The Finance Act of 1947 sought to rationalize the tax position of pension schemes. Certainly since then their growth has been as remarkable as it has been sustained. The provisions of the 1956 Finance Act for the benefit of the self-employed professional man were a reflection of the advantages conferred upon his salaried counterpart by the widespread formation of group pension schemes, whether privately administered or managed. Future generations of retired workers, it seems, can look forward to a more affluent retirement than many of the present retired population, subject always, of course, to the pace of inflation.

Against this background, the publication last week of the findings of a sample survey commissioned by Noble Lowndes Holdings Ltd from the research organization, Mass Observation Ltd, is to be welcomed. The survey sought answers to four main

questions. First, how many people and what sort of people are covered by such schemes? Second, how important is the existence of a pension scheme in job satisfaction and staff welfare? Third, what are the advantages of the three main types of methods of providing for a pension, i.e. employer, personal and State? And lastly, how do the State pension schemes affect, if at all, the employer schemes?

The report, based upon sample data, gives no estimate of the actual numbers covered by such schemes. What does emerge, however, is that 57 per cent of those interviewed were in a pension scheme; while another 10 per cent replied that there was such provision but they had not yet joined. One-third of all male respondents did not come within the scope of their employers' existing pension schemes, and it is this aspect of the problem which is perhaps the most serious.

Whereas four in every five respondents in the upper and middle class occupations, i.e. professions and higher salaried employees, were covered, only 45 per cent of the unskilled and semi-skilled manual workers were in employer pension funds. The same point is evident from the survey's finding that 69 per cent of all the schemes covered excluded certain categories of employees, the main exclusion being manual workers. An interesting comment on this finding is that more firms believe that 'in present circumstances those excluded have no wish to be included', than those which take the opposite view.

It is commonplace that pension schemes vary widely, both in their benefits and the mode of financing these benefits. The survey showed that 83 per cent of the respondents were involved in schemes which are contributory in principle, and of these three-quarters are unable to add to their pensions even if they wished. An interesting development is reflected in the fact that 13 per cent of respondents were in schemes providing for adjustments to benefits after retirement to match the inflation. Almost two-thirds of the respondents in such schemes stated that some of the benefits would pass to the wife if the pensioner pre-deceased her and, when discussing the desirable features of such schemes, almost half wanted the schemes to cover widows' benefits.

It is quite clear that the provision of pension rights constitutes an attraction for the prospective employee, but doubts have at times been expressed whether the existing schemes do not entail some disadvantages. Over four-fifths of the 200 companies in the sample considered that their pension schemes were worth while on the grounds that new employees had been attracted and employee relations had been improved. In particular, it was added that employee turnover had been reduced by such schemes. Clearly, in any organization a stable and contented labour force is much to be desired. There is, however, no doubt that the lack of mobility of staff with pension rights stems from the fact that as the employee gets older, the sacrifice of accumulated pension rights is too high a price to pay for moving to what might prove to be more attractive and better paid employment.

Some employers do permit an employee to take his accumulated benefits when he leaves, but they are few. Rather more firms are prepared to 'freeze' the existing benefits until the ex-employee reaches pensionable age and it could be that, in the longer run, this will be the basis of the solution needed if the existing pension schemes are not seriously to restrict mobility of older and experienced staff. Certainly there is a strong case for continuing consideration of the means whereby the pension rights of an employee may be transferred when he changes his employment.

Another aspect of the trend towards widespread company schemes is the cost of fitting in new members of staff who are over 40. When one considers the growing numerical importance in the population of the older-age groups, the preference – one might almost say fetish – on the part of some organizations for young blood is hardly consistent with the national interest. It is understandable that firms should wish to avoid heavy supplementation of pension funds at the recurrent valuations, but this is an aspect of company schemes which requires more consideration than it has so far received.

While the issue of pensions has been fairly successfully kept out of the political arena, there are clear differences between the views of the major parties on the relative roles of State and private schemes. The survey report observes that few respondents understood the present graduated State scheme, but most were aware of the high cost of providing out of personal income for pensions.

With the need to attract labour, the continuing prospect of full employment and, not least, high corporate taxation, there can surely be no doubt as to the future of private group schemes. A further independent survey by a body such as the Institute of Actuaries or one of the professional accountancy bodies into the extent and various benefits of private schemes would provide much useful information regarding the current state of affairs and trends. This could well be the time for a fundamental review to ensure that both employers and employees are getting the maximum benefit of what has become a feature of modern life.

CAPITAL GAINS TAX

Trustees' Problems in Making Advances

THE recent publication by the Inland Revenue of the booklet purporting to explain the capital gains tax makes it necessary to look again at the question of advancements of capital by trustees where there is a life interest. We discussed this question somewhat cursorily in the issue of January 15th, relying on assurances given by Government Ministers that an advancement could not give rise to capital gains tax liability, although we did say that in our opinion the Minister had put too narrow a construction on section 25 (4) of the Finance Act, 1965.

The booklet mentions the subject at paragraph 187 which reads (our italics):

> '187. Finally it should be noticed that the capital gains tax charge applies *on the termination of a life interest in possession in all or any part of settled property*; the provision therefore (*sic*) applies, subject to the fifteen-year rule, whenever trustees advance property out of a trust to a beneficiary, for the property which is advanced leaves the trust and the life interests in respect of it thus terminate. In practice, however, the Inland Revenue will not regard the provisions of section 25 (4) as applying on the occasion of a modest advance to a beneficiary, for example, for the purpose of meeting school fees. If the trustees have to dispose of assets in order to raise cash to make an advance then the disposal of those assets will of course give rise to a capital gains tax charge in the ordinary way; equally, if the advance takes the form of assets any gain accruing in respect of those assets will be chargeable under section 25 (3) (see paragraph 181 above).'

Although the above paragraph purports to be an explanation of section 25 (4), the important words are those we have italicized and these unhappily merely repeat word-for-word an extract from section 25 (4) itself. It seems that this slavish adherence arises from an uncertainty on the part of the compilers as to what those words do in fact mean.

Certainly they were put forward by the Government in the House of Commons as having a different and (for the taxpayer) less onerous meaning when the Government were trying to have the Bill made law. Difficulty obviously arises as to the precise import of the words 'or any part'. Does this govern 'life interest' or does it govern the termination?

Already, by the Committee stage, this ambiguity had given rise to speculation. On May 26th, last, Sir HUGH LUCAS-TOOTH, M.P., was asking the MINISTER WITHOUT PORTFOLIO about the repercussions on advances. He said (our italics)[1]:

> 'How do the Government think the words "or any part" will operate? Very often, in the case particularly of small settlements, it is most desirable to make an advance for the benefit of children. A typical case is that of an advance of a few hundred pounds to enable a son to be apprenticed, or make his way through university, or start him in life in some way. As I understand it, if any such advance is now made there will be a termination of part of the settlement, *with the result that the whole of the funds will immediately have to be valued* and be subject to tax. If that is correct, all such advances will stop at once. That seems to be wholly undesirable from everyone's point of view.'

The MINISTER WITHOUT PORTFOLIO, in a reply which extolled the great sympathy and leniency of the Inland Revenue said:

> 'The hon. Baronet can take it from me that there is nothing whatever in the imposition of a liability to capital gains tax which will fetter the ordinary discretion and rights of trustees, with regard, for example, to the advancement of capital for education or any other purpose.'

This vague generalization prompted Sir HUGH to come back to the charge with a more specific question. He asked:

> '. . . consider the case of a shop-owner who dies fairly young, having made a trust leaving £2,000 or £3,000 to his widow and two children. I ask the Committee to assume that it is thought desirable to raise, say, £100 for the benefit of one of the children. Will that act immediately import the provisions of subsection (4) and require the whole of the property to be valued and tax to be paid immediately?'

Then came the MINISTER's categorical assurance (our italics):

> 'I am advised that if, in the case supposed the trustees make an advance of a capital sum, *that does not* give rise to *any* charge for a capital gains tax. The *only* circumstances in which a liability for capital

[1] *Hansard* (H. of C.) Vol. 713, cols. 697, 701, 702.

gains tax arises is on the *death* of a tenant for life or some extended period.'

We commented in our issue of January 15th that this was certainly too narrow a construction. Indeed, it is quite absurd, because it is a commonplace of, for instance, estate duty law that a life interest can terminate without anybody dying. However, no attempt was made in the House to correct this weighty utterance. Moreover, it was underlined at the report stage.

On July 7th, Mr PETER WALKER tried to introduce some certainty by proposing to delete 'forming part of the settled property' from section 25 (4) and to substitute 'in respect of which the life interest has been determined'.

This would clearly confine any liability to those assets in which the interest had in fact been determined[2].

The FINANCIAL SECRETARY rejected this. Thereupon Mr FLETCHER COOKE said that in relation to advances, people were not satisfied with the answer which the MINISTER WITHOUT PORTFOLIO had given on May 26th, and which we have set out above. He said there was a danger that an advance for the purposes of education, or for setting up a beneficiary in business, could be held to terminate the life interest in a part of the settled property, and that being so, the full amount of capital gains tax would be attracted for the whole capital value of the settlement.

Once again an assurance was given, not merely that any charge would not extend to the whole, but that there would be no charge at all. The FINANCIAL SECRETARY said: 'I would assure him that an advance of the kind he described would not be a determination of an interest so as to be an occasion of charge.'

However, these repeated questions seem to have set in motion some process of thought in the authorities. This was revealed by the publication in *The Times* on October 29th, 1965, of a letter from Sir HUGH LUCAS-TOOTH, who had first raised the matter in the House. In his letter he said that as he could not reconcile the Government's assurances with the words of section 25 (4), he had written to Mr DIAMOND, the Chief Secretary, and had put the question for a third time. He quoted Mr DIAMOND's remarkable answer (the italics are ours):

> 'We have been considering carefully (*sic*) the points which you make in your letter and I am now (*sic*) advised that an advance out of settled property in the three ways you mention would result in the termination of a life interest in part of settled property. [There is a plain inference here that this would attract gains on the whole fund.] The assurances which the Ministers gave during the discussions of the Finance Bill in the House of Commons nevertheless still hold good. *As a matter of practice* it will not be the intention of the Revenue that *modest* advances out of trust funds, which are made for the usual purposes such as defraying the cost of educating the beneficiary, should bring about a charge under section 25 (4) of the Act.'

[2] *Hansard* (H. of C.) col. 1720.

Sir HUGH commented that it was unfortunate that the Government had not thought fit to correct the record in Parliament. He asked 'meantime, what are trustees to do?'

Our own advice to them would be to beware of the Inland Revenue when they bring gifts. The trustees' liability will depend on what some anonymous gentlemen in Somerset House consider to be modest. Perhaps before putting down a beneficiary for a named school, the Inland Revenue will have to be asked whether they think the fees charged are sufficiently modest. This tenderness to the payment of school fees sits oddly on a Government which appears to be dedicated to abolishing them altogether.

As regards other advances, the position is still more confused. Although the 'explanatory' booklet has preserved the ambiguity which lies in section 25 (4), the CHIEF SECRETARY's letter to Sir HUGH LUCAS-TOOTH makes it reasonably plain that every advance is in law a termination of a life interest which can land the whole fund in capital gains tax liability.

This may nevertheless turn out to be wrong. The Government have stood on their head once, so perhaps the Courts will make them do it again. It can be argued that what has to terminate is the life interest *qua* life interest, whether it is a life interest in a part of the settled fund or in the whole. The distinction is brought out by section 43 of the Finance Act, 1940, dealing with termination of life interests in relation to estate duty. That section speaks of the interest itself as being determined 'whether wholly or partly'. An advance would clearly cause the interest to determine partly. But, unless it extended to the whole property, it would not determine the life interest itself.

In other words, the termination of a life interest which has been created over part of a fund, is not the same as the removal of some of the property from that part of the fund. However, when one is faced with drafting of this calibre, not to mention the Governmental shifts about what it means, then certainty can only be achieved by the costly and time-consuming process of going to the Courts. This is entirely unsatisfactory in cases where the trustees are concerned to make an advance in an emergency. This, of course, is apart from questions of what the Inland Revenue in their own good time are pleased to consider to be 'modest'.

Keeping Pace with the Times

A SENSE of urgency in this present age of automation and rapid change pervades the annual report of the Council of The Institute of Chartered Accountants of Scotland (extracts from which appear on other pages), in which education is again the keynote. It is not sufficient, as the Institute recognises, to revitalize the education and training of students; C.A.s themselves require instruction in modern methods to keep pace with the times.

Many meetings of the special committee appointed to consider and report upon the examination and training of candidates have been held since April 1964. Its final report has yet to be made but as a result of an interim report, alterations have been made to university degree syllabuses so that they include mercantile law, economics and accountancy.

A special committee on post-qualifying education appointed in April 1965 has arranged a series of part-time courses at main centres on electronic data processing, with particular emphasis on programming. There are also residential courses on 'Accounting and the computer' and on 'Auditing a computer'. In the management accounting sphere a series of part-time courses has been held on modern analytical techniques, and a residential course on 'An appreciation of management techniques' has also been planned. Part-time courses at main centres to study the capital gains and corporation taxes have been taking place and the usual annual summer school was held at St Andrews University.

An important development is the organized study into the establishment of a computer education and applied research centre. As previously announced, a study team was appointed and has been examining the project in detail since May of last year; its report, however, is not yet ready for publication. The team is broadly based and includes, besides members of the Institute, representatives of the universities, commerce and industry, local authorities and nationalized undertakings. Finance for the project has been received from industry and commerce, and banking.

The growing importance of Britain's association with Europe is reflected by the Institute's links with European accounting organizations. The U.E.C. (Union Européenne des Experts Comptables Economiques et Financiers) is reported to have completed its proposals for the reorganization of the general committee work of the U.E.C., to take account of the enlarged membership consequent upon the admission to membership of the leading accountancy bodies in the British Isles, the Netherlands and Scandinavia. A special U.E.C. committee continued its work in preparation for the Study Conference to be held in Baden-Baden next November. This conference will be divided into a number of working groups, each working in one of the three official languages – English, French and German. Representatives of the Institute attended functions of overseas accountancy bodies in France, Belgium and the Netherlands, and also in the Middle East, Argentina and India – the conference of Asian and Pacific Accountants.

In the field of research, a further five projects were put in hand during 1965, while those started in 1964 were continued. One of the latter was brought to completion by the publication in December of a second paper on 'The presentation of taxation matters in company accounts'.

The great developments taking place in the accounting profession – greater specialization, new skills, improved methods, more research, European and world co-operation – are bound to increase the costs of the accountancy bodies, and it is therefore not surprising, though no less unpalatable to those concerned, that the Council have decided an increase in the scale of subscriptions has become necessary. New rates are proposed to take effect from January 1st, 1967. The present rates have been in force since 1961.

Statistics kept by the Institute show that over the past five years there has been an unchanged intake of graduate apprentices, expressed as a percentage of the total number of apprentices registered. All accountants who have the future of the profession at heart will surely agree with the Council's statement that this figure, viz. 9 per cent (graduates of total entrants), is unduly low. How to attract a greater share of the best educated young men and women presents a challenge to the whole profession which has yet to be fully met – and here, too, there is a note of urgency.

Accountants in the Election

THIRTY-SEVEN members of the profession have been nominated as candidates for Parliament in next Thursday's General Election – the same number as contested the last election in 1964. On that occasion, seven were successful.

Of the present thirty-seven accountant candidates, twenty-nine are members of the English Institute; four of the Scottish Institute; one of the Irish Institute and three of The Association of Certified and Corporate Accountants. Twenty are standing as Conservatives; one as Ulster Unionist; ten as Liberals; four as Labour and two as Scottish National Party candidates. Brief details are given below:

MR JOEL BARNETT, F.A.C.C.A., senior partner, J. C. Allen & Co, Certified Accountants, Manchester. Labour candidate for HEYWOOD AND ROYTON; M.P. for this constituency since 1964.

Mr KEITH W. BAYNES, A.C.A., in public practice, Chadwell Heath. Liberal candidate SOUTHEND EAST.

Mr LEONARD J. A. BISHOP, A.C.A., of Ramsgate. Labour candidate for ISLE OF THANET.

Mr WILLIAM G. H. CLARK, F.A.C.C.A., senior partner, W. G. Clark & Co, Certified Accountants, London. Conservative candidate for NOTTINGHAM SOUTH; M.P. for this constituency since 1959. Front Bench spokesman on treasury and trade.

Mr LEONARD H. CLEAVER, J.P., F.C.A., of Lapworth, Warwickshire. Conservative candidate for BIRMINGHAM, YARDLEY; M.P. for this constituency from 1959–64. Personal Private Secretary to Minister of Housing until 1964.

Mr ERIC C. COOKE, F.C.A., partner G. W. Roberts & Co, Chartered Accountants, Rotherham. Conservative candidate for ROTHERHAM.

Mr MAURICE CRICHTON, C.A., partner in Wilson, Stirling & Co, Chartered Accountants, Glasgow, and partner in Touche, Ross, Bailey & Smart, Chartered Accountants, Glasgow. Conservative candidate for PAISLEY.

Mr DAVID H. DAVIES, J.P., F.C.A., partner Wynn, Llewelyn Davies & Co, Chartered Accountants, Narberth, Pembs. Liberal candidate for CARMARTHEN.

The Rt Hon. J. (JACK) DIAMOND, P.C., F.C.A. Labour candidate for GLOUCESTER; M.P. for this constituency since 1957 (by-election). Was M.P. for Blackley, Manchester, 1945–51. Parliamentary Private Secretary to Ministry of Works 1946–47. Chief Secretary to the Treasury since October 1964.

Mr BASIL J. EALES, F.C.A., secretary, British Enkalon Ltd, Leicester. Conservative candidate for ILKESTON.

Mr HAROLD R. ELLISTON, F.C.A., of Lower Penn, near Wolverhampton. Conservative candidate for CANNOCK.

Mr JAMES A. FERGUSSON, A.C.A., of Batley, Yorks. Conservative candidate for HUDDERSFIELD EAST; contested this constituency in 1964.

Mr JULIAN GOULD, A.A.C.C.A., secretary and accountant, Silk Velvet Manufacturing Co Ltd, Blackburn. Liberal candidate for ACCRINGTON.

Mr DAVID B. GRIFFITHS, A.C.A., of London, W9, Liberal candidate for Paddington North.

Mr ROBERT HIPKISS, A.C.A., of Golborne, Lancs. Conservative candidate for LEIGH.

Mr CEDRIC J. HODGSON, A.C.A., partner, A. & C. Surrey & Co, Chartered Accountants, London. Conservative candidate for THURROCK.

Mr CLIVE HOWSON, M.C., M.A., A.C.A., partner, C. Howson & Co, Chartered Accountants, Stoke-on-Trent. Conservative candidate for STOCKPORT SOUTH. Contested Stoke-on-Trent in 1964.

Mr TIMOTHY KNOWLES, A.C.A., of Swansea. Conservative candidate for SWANSEA EAST.

Mr IAN D. McDONALD, F.C.A., of Banwell, Somerset. Liberal candidate for WESTON-SUPER-MARE. Contested this constituency in 1964.

Mr TERENCE A. MAHER, A.A.C.C.A., accountant, Carborundum Co Ltd, Manchester. Liberal candidate for RUNCORN. Contested this constituency in 1964.

Mr MICHAEL J. MALLETT, A.C.A., secretary, James Neill & Co (Sheffield) Ltd, Sheffield. Conservative candidate for SHEFFIELD HILLSBOROUGH.

The Rt Hon. ALFRED ERNEST MARPLES, P.C., F.C.A. Conservative candidate for WALLASEY; M.P. for this constituency since 1945. Parliamentary Secretary to the Minister of Housing and Local Government, 1951–54; Parliamentary Secretary to Minister of Pensions and National Insurance, 1954–55; Postmaster-General, 1957–59; Minister of Transport, 1959–64.

Mr BRIAN A. MARSDEN, A.C.A., of Halifax. Conservative candidate for SHEFFIELD ATTERCLIFFE.

Mr BRUCE MILLAN, C.A., of London. Labour candidate for CRAIGHTON, GLASGOW; M.P. for this constituency since 1959. Parliamentary Under Secretary of State for Defence for R.A.F. since 1964.

Mr MICHAEL A. MINTER, A.C.A., in public practice, Bromley and Chislehurst, Kent. Liberal candidate for CLAPHAM (WANDSWORTH).

Mr RAFTON J. POUNDER, M.A.(CANTAB.), A.C.A., of Belfast. Ulster Unionist candidate for BELFAST SOUTH. M.P. for this constituency since 1963.

Mr DAVID F. PRUSMANN, B.A.(COM.), A.C.A., Lecturer in management accountancy, The Manchester School of Management and Administration. Liberal candidate for MANCHESTER MOSS SIDE.

Mr HENRY C. D. RANKIN, M.A., LL.B., C.A., commercial manager, Stewart Wales, Somerville Ltd, East Kilbride. Scottish National Party candidate for LANARK.

Mr DERRICK J. ROBSON, A.C.A., of Newcastle upon Tyne. Conservative candidate for JARROW.

Mr MICHAEL SHAW, J.P., F.C.A., senior partner, W. H. Shaw & Co, Chartered Accountants, Dewsbury. Conservative candidate for SCARBOROUGH AND WHITBY; M.P. for Brighouse from by-election 1960 until 1964. Contested Dewsbury 1955.

Mr CHARLES M. K. TAYLOR, B.A., A.C.A., of London. Conservative candidate for CHESTER-LE-STREET.

Mr FRANK H. TAYLOR, F.C.A., senior partner, Frank H. Taylor & Co, Chartered Accountants, London. Conservative candidate for MANCHESTER MOSS SIDE; M.P. for this constituency since 1961.

Mr S. WAINWRIGHT, M.A., F.C.A., partner, Beevers & Adgie, Chartered Accountants, Leeds. Liberal candidate for COLNE VALLEY. Contested this constituency 1964.

Mr JOHN WAKEHAM, F.C.A., partner, Roffe, Swayne & Co, Chartered Accountants, London, and partner, Peterken, Barnes & Co, Chartered Accountants, London. Conservative candidate for COVENTRY EAST.

Mr PHILIP G. WATKINS, M.A., A.C.A., director, Gilbertson & Page Ltd, Hertford. Liberal candidate for BRIDGWATER. Contested this constituency 1964. Member of Liberal Party Taxation Committee.

Mr WILLIAM D. WILLIAMS, F.C.A., partner, W. J. C. Kendall & Co, Chartered Accountants, Malvern. Conservative candidate for DUDLEY AND STOURBRIDGE.

Mr WILLIAM C. WOLFE, J.P., C.A., managing director, Bathgate Forge Ltd, Bathgate, West Lothian. Scottish National Party candidate for WEST LOTHIAN.

Current Affairs

Estate Duty Avoided

THE attempts of the Estate Duty Office to gather estate duty on about £67,000 of life policy moneys have foundered again. These policies were on the life of Mr Stewart Kilpatrick and were issued to him under section 11 of the Married Women's Property Act, 1882, 'for the benefit of the wife of the assured if she shall survive the assured by more than one month. If she should not survive the assured for the period of one month then this policy shall be for the benefit of the two sons of the assured . . .'. The assured died on October 20th, 1961, and the wife survived until June 30th, 1964. The Revenue claimed that the money was 'deemed to pass' on his death, pursuant to section 2 (1) (*d*) of the Finance Act, 1894. The High Court rejected this claim on May 11th, 1965, and the Court of Appeal, according to *The Times* of March 17th, has dismissed the Revenue appeal.

The Revenue argued that the wife's interest was contingent and only vested on her survival of her husband. However, relying on *Phipps v. Ackers* ((1842) 9 Cl. & F. 593), the Court held that she had from the beginning a vested interest, liable to divestment if she did not survive. The Revenue further argued that even if her interest was vested, it 'accrued' within section 2 (1) (*d*) when it fell into possession. This was rejected on the authority of *Wrightson and Another v. C.I.R.* (36 A.T.C. 161).

A third Revenue argument was that the wife had two different interests; a right to the income (if any) up to her taking the capital, and a right to the capital on the expiry of the month, which was a date fixed by reference to a death. It was held that there was only one interest. Finally, the Revenue argued that the interest before the falling in was only an interest 'in expectancy' and therefore there was a passing when it fell in. This submission went the way of all the others.

The case will probably go to the House of Lords.

Stock Exchange appoints Exchange Accountants

AS from next Friday, April 1st, new regulations are being introduced by the Council of the London Stock Exchange to tighten control on member firms' accounts; this follows the recent failure of certain firms resulting in considerable payments from the Stock Exchange Compensation Fund (referred to in *The Accountant* of February 5th).

The Council have decided that all firms shall be required to submit their annual balance sheets and accountants' reports prepared under Rule 79A for inspection by an outside accountant (to be called an Exchange Accountant) appointed by the Council, and the two firms of chartered accountants which have been appointed to act in this capacity for the time being are Deloitte, Plender, Griffiths & Co and Peat, Marwick, Mitchell & Co.

Member firms submitting accountants' reports on or after April 1st must also submit a copy thereof, together with a copy of the firm's balance sheet, direct to one of the Exchange Accountants who will receive them on behalf of the Council. It will be necessary for member firms to inform the Council Secretariat by March 31st of the Exchange Accountant who will be acting for them. The Exchange Accountant selected must be neither the firm's independent accountant nor the firm's tax advisers.

Instructions to the Exchange Accountants to be issued by the Council will require them, in addition to any special report necessary, to make regular routine reports to the Council stating:

(i) the names of member firms which have submitted balance sheets together with the dates of submission;

(ii) the names of member firms which have not submitted balance sheets by the due date (not later than six months after the balance sheet date);

(iii) whether or not the balance sheets submitted appear to have been prepared in compliance with Rule 79A.

Member firms are required to ensure that the new arrangements are brought to the attention of their accountants without delay.

Computers – The Accountant's Tool

'COMPUTERS can only count on one finger. Just grasp that one simple fact, and these machines need never frighten you again', said Mr Basil de Ferranti, managing director of I·C·T, at a recent luncheon meeting of the London and District Society of Chartered Accountants. 'Mind you, they do it very fast', he added.

Referring to the commercial use of computers, Mr Ferranti said that the greater part of the responsibility of taking advantage of the invention of the computer fell upon the accountancy profession. 'This tool', he said, 'is the accountant's tool'. I think it can make an enormous difference to your profession and it will certainly make an enormous difference to business in Britain.

Mr Ferranti went on: 'I am quite sure that this is a challenge that you will seize and, in fact, are seizing, and that you will be successful in it.' But, he said, if they did not fully meet the challenge, they would find themselves being supplanted by others – 'new breeds of people who understand these machines'. Accountants should get to know and understand computers, and they should not be disappointed if this takes a bit of time.

'I believe', he went on, 'that every accountant should have a complete understanding of what programming is all about. If possible they ought to have actually programmed the machine themselves, for the art of programming is absolutely precise; it is totally unforgiving if you get it wrong and it is therefore a very worthwhile procedure for every accountant to go through.'

Similarly, Mr Ferranti felt that all accountants should understand the principles of systems analysis; the actual setting down and deciding what was already being done, how one analysed the system in order to make it more suitable for operating with a computer, and the construction of the computer system that was appropriate to the particular application.

Finally, he thought that every accountant should know and understand the principles of data processing organization; what the costs were, the kind of organizational structure required, and the standards of performance which should be expected from a data processing installation and those in charge of it.

He was aware that the Institute was making a great contribution towards equipping its members to meet the challenge of the computer. This was eminently worth while for although people were naturally somewhat idle and averse to coming to grips with new ideas, it was 'a good thing to give oneself a prod in order to make sure that one was doing all that one should'.

Decimal Currency in Ireland

THE possible introduction of decimal currency in the Irish Republic may result in unexpected complications in financial dealings between the Republic and the United Kingdom. An Irish working party set up to consider the question of decimal coinage published its report in May 1965, recommending the introduction as soon as possible of the 10s-cent system. The chairman, who represented the Central Bank, recommended in a reservation that in the event of a change-over taking place in Britain at the same time as in Ireland, the same system as Britain's should be adopted. A synchronized change-over in 1971 would obviously be desirable.

In the Dail on March 9th, however, the Minister for Finance ventilated the possibility of a different basic system. 'While convenience would suggest the adoption of the same basic unit as the British', he said, 'a 10s-cent system has technical advantages, and I propose, in consultation with the Central Bank, to give further consideration over the coming months to the question of the basic unit which would be most suitable for introduction here in the circumstances envisaged'.

Trade, not Aid

A MAJOR contribution to Britain's external payments difficulties is the heavy Governmental aid to what are euphemistically described as 'developing' territories. This expenditure might be more willingly borne by the home taxpayer if he were convinced that it produces 'dividends', either in the form of outright political alliances or in rising living standards in the recipient territories. On neither count is the outcome satisfactory. The world's powers are exploited in the conditions of the 'cold war' by 'independent' territories demanding ever more aid, while the gap between the living standards of the Western nations and the under-developed countries widens steadily.

Two pamphlets from the Institute of Economic Affairs throw light upon these thorny issues. The first, *Two Views on Aid to Developing Countries* (7s 6d) reproduces recent papers from Miss Barbara Ward and Professor P. T. Bauer in which conflicting views on the best policy are presented. The former argues her case cogently and persuasively, contending that the Commonwealth has both a moral obligation and opportunities to help change the face of the world. Professor Bauer reviews the misallocation of much of current aid and the way it has bolstered up incompetent Governments whose internal policies have disrupted the national economy. His message is short and to the

point. Self-help concentrates the mind wonderfully and it is high time the West allocated scarce resources less generously and more sensibly.

A new edition of Sir Sidney Caine's recent Hobart Paper *Prices for Primary Producers* (also 7*s* 6*d*) pinpoints the basic problem of the underdeveloped nations. Inefficiency of their basic agricultural industries, schemes for price control which protect the inefficient producer, and last but not least, shortcomings in the social and economic structure of many primary producing nations which international commodity agreements can scarcely affect. On the other hand, the West does not help with its restrictionist policies towards the import of raw materials, foodstuffs and manufactures. In short, international commodity agreements are no answer to a situation which stems from discriminatory protectionist policies in both developed and underdeveloped territories.

This is My Life

by An Industrious Accountant

AFTER the year's trading results are available the directors devote a meeting to a review of proposals for the year-end salary increases. So it was that in due course the happy day arrived when I handed out white envelopes marked 'confidential' to the Accounts staff. Each section head received a bundle to distribute among his own immediate subordinates; more important, he received one addressed to himself.

The office manager carefully checked off his bundle with a tally roll of increases against his own list of names, while receiving my congratulations on his section's satisfactory progress through the past year. Last of all came his own envelope. It contained good wishes from the directors as well as notice of his increment.

His section had pulled well together, he agreed complacently; a substantial improvement had been recorded. They had reduced the staff establishment following the purchase of the new automatic duplicating equipment and the reorganization of the cashier's procedures; it was gratifying to hear of the directors' approval, which he would convey down the line. His subordinates, young and old, comprised probably the ablest team in the company, if he could make the claim in all modesty. Perhaps on their behalf, as well as his own, I would express to the board due appreciation of the salary increases. And so on.

While he spoke he slipped his own *billet-doux* unopened into his inside pocket, with a brief but courtly phrase of thanks. He has never, over many years, referred to it after the meeting nor has he registered any opinion about its magnitude (or otherwise). None of his colleagues have ever heard how his salary is progressing. He is aware that his deserts are high; he expects the directors to reward them as richly as is practicable; he accepts the annual missive as his just due. Indeed, I sometimes wonder if he tells his wife how much he gets; the irrestible force must meet the immovable body when the Hairpin demands to know the worst.

Later in the day Costs accepted his bundle and his personal note, together with the appropriate comments. Though he said it himself he personally had done a good year's work, he observed thoughtfully. He had arranged a new procedure for modernizing our rather lax budgetary control system, and his private approaches to the transport section manager had paid off richly in speedier dispatch of orders. Ignoring the bundle designed for his section he opened his own envelope and frowned slightly as he read the note. There was a short silence.

When I asked him bluntly if he was satisfied with his increase he answered that he didn't know yet . . . it seemed all right, but he had to check on the 'general form' first. He usually foregathered with a bunch of the other chaps over lunch when they pooled their information and estimated the norm. Some of the salesmen were already rumoured to have done jolly well, so the accounts men naturally had to compare notes. By striking an average percentage for run-of-the-mill performance they could easily estimate what extra-meritorious men should get. Of course, he added hastily, perhaps conscious of my darkening countenance, he was lucky to get anything at all considering that money was tight these days, but that's always the way it was, anyhow.

I recalled my struggle in the boardroom to get the accounts department the little that they'd actually got, in the face of at least one thick-headed director who felt that priority should go to the salesmen. Prinny, the personnel director, had emphasized the highly-confidential nature of the awards. Morale would be jeopardized, he claimed, if chaps thought that other chaps knew what they got. Secrecy was essential.

Actually, said Costs handsomely, as he rose to go, his increase amounted to more than he'd expected in the circumstances, though rather less than he'd really hoped for.

Irish Republic's 1966 Budget

FROM AN IRISH CONTRIBUTOR

ON March 9th, the Minister for Finance introduced in the Dail some of the stiffest tax increases known in the 'distressful country' since the 'Black Budget' of 1952. The Budget this year was earlier than ever before, since the need to adjust the 1965 Budget and to strengthen the financial position was so pressing that time could not be lost. 'It has had to appear one-sided – all "take" and very little "give"', said the Minister, 'simply because the giving has all been done already'.

The following are the principal increases designed to bridge the forecast gap of £12 million:

		Yielding £'s million
Beer:	2*d* a pint	2·25
Spirits:	4*d* a glass	1·10
Tobacco:	2*d* per twenty packet ..	1·10
Road tax:	25 per cent (private vehicles)	1·30
Petrol/diesel oil:	4*d* a gallon	2·00
Income tax:	8*d* increase to 7*s*	4·55
		12·30

Children's allowances

Excepting minor adjustments to old age, blind and widows' pensions, and in unemployment assistance, the only concession to the taxpayer is an extra allowance of £30, to £150, in respect of each child over eleven years. Since he could afford only a small adjustment, the Minister decided it could best be given to aid the heavier education expenses falling on married couples with children of secondary school age and over.

Estate duty

The Finance Bill is to contain a general provision amending the 1894 Finance Act so as to bring payments made *ex gratia* on death under a superannuation scheme or arrangement into liability to estate duty. Gratuities affected by this change would be inclusive of amounts paid under the Superannuation Acts to the personal representatives of a deceased civil servant.

Substantial additional relief is afforded to widows in respect of estate duty. Concessions given by section 29 of the 1965 Finance Act are extended by advancing the limit on the value of estates in question from £15,000 to £25,000, with appropriate marginal relief. Duty payable would also be abated by an increase from £250 to £350 in the case of widows, and from £150 to £250 for each dependent child. A childless widow, for example, would pay no estate duty on an estate up to £8,750 in value; for a widow with three children the figure would be £13,750.

P.A.Y.E. and surtax directions

In view of the increased rate of income tax, new ready reckoners for pay-as-you-earn are to be made available to employers before the operative date of April 6th. The new rate of deduction would be 5*s* 3*d* for earnings not exceeding £2,000 per annum. Where a taxpayer had claimed an allowance on his return for 1965–66 for a child who would be over eleven years of age on April 6th, 1966, the tax office will issue a revised certificate of tax-free allowances as soon as possible.

There was difficulty in fixing a specific time limit for the making of surtax directions. Criticisms made on this point in the past, stated the Minister, may best be answered by a provision in the Finance Bill under which a company which had delivered accounts and any other information could, on application, require the Revenue to decide within a specific period whether action under the section was contemplated.

Corporation profits tax

Since the new United Kingdom corporation tax would apply to the U.K. profits of Irish companies, full relief in respect of this tax would be given by allowing as a credit against Irish income tax the amount which could not, under existing law, be allowed by way of credit against Irish corporation profits tax. The extra cost to the Exchequer of granting this relief would be covered by an appropriate increase in the rate of corporation profits tax. This increase in the case of companies effectively liable to income tax in Ireland would be negatived by allowing corporation profits tax as a deduction from profits for income tax purposes. So far as United Kingdom companies were concerned, the amount paid in corporation profits tax would be allowable as a credit against corporation tax under existing arrangements. Thus the increase in the rate of Irish corporation profits tax would not affect the net tax liability of companies operating in the Republic.

As the rate at which the United Kingdom corporation tax would be introduced is not yet known, it is impossible as yet to determine the amount of the proposed increase in the rate of Irish corporation profits tax. The necessary provision will be made in the Finance Bill.

Auditing and Professional Education

by R. IAN TRICKER, A.C.A., F.C.W.A., J.Dip. M.A.

The author of this article is participating in the 1965–66 International Teachers Program of the Graduate School of Business Administration, Harvard University, under the sponsorship of the Foundation for Management Education. The views expressed are his own.

AUDITING is central to the work of the practising accountant and, at the moment, routine seems fundamental to auditing. The interesting and challenging aspects of an audit are the outcome of routine fulfilled. Despite indications of a reduction in the extent of laborious ticking, totalling and cross checking, the aspiring accountant can expect to be immersed in routine at the beginning of his training.

Indeed, the prospective chartered accountant is warned of the repetition he faces early in his career with these words:[1]

> 'In the earlier stages an audit consists largely of routine work . . . an articled clerk may at times find his auditing duties monotonous and uninteresting, but much depends on his attitude of mind and he should realize that routine work is important in helping him to acquire qualities essential in a chartered accountant.'

But what are these essential qualities that exposure to the routine develops? Surely not the ability to withstand the monotony of further routine during his subsequent career. This article seeks to discuss the relevance of audit work to the development of the future accountant.

Justifying routine

Many reasons can be advanced to justify the practice of employing articled clerks on routine in the early stages of an audit. They can nearly all be categorized under four headings:

(1) Routine is 'good' for the young man: it develops character, promoting discipline and determination.

(2) The articled clerk must be trained in audit method and technique to fit him for his chosen profession; what better experience than actually doing the work?

(3) Someone has to do the work: the articled clerk is an economic proposition and, as can be seen from the other reasons, it is to his advantage.

(4) Practical audit experience provides an opportunity for the articled clerk to broaden his awareness of business and the technologies of various industries, services and functions; he is able to obtain an insight into management and to deepen his understanding of accounting and control.

Let us examine each of these suggestions in turn.

Frequently it is the older member of the profession who emphasizes the value of routine as a means of developing discipline. Fostered in a stable society in which work was considered noble, he tends to project qualities such as resolution, methodical application, tenacity and fortitude, which he feels are important to the maintenance of the *status quo*, into a society redolent with change.

A man no longer earns respect for work alone. Today's educated young people are looking for intellectual challenge, the opportunity to be creative, the chance to contribute something to their society, in a role they find stimulating, interesting and worth while. They are prepared to work and study hard to achieve their aims. They do not see any virtue in hard work for its own sake.

This does not mean that the old virtues have been totally rejected; rather they have become overshadowed by the urgent needs of today's dynamic environment. Initiative becomes more important than endurance; imagination and creativity become preferable to determination and tenacity. In a profession in which today's knowledge is likely to be totally irrelevant to their work in twenty years' time, adaptability has more significance than resolution.

The accountancy profession needs to attract the young people most aware of the challenges of the changing society to be able to adapt itself for the future. It is unlikely to do so by attitudes that reflect the dogmas of a past generation.

A profession rooted in integrity and adherence to an ethical code must have discipline; to exist in tomorrow's world it must also develop people of imagination and vision. We must beware that in encouraging one, the other is not stifled. Too much routine can very quickly destroy some of the qualities tomorrow's accountants will most need.

Learning by doing

In Britain, most of the audit training is received by articled clerks on the job. Correspondence courses provide a structure of methodology and supplement the experience with the necessary law and technique

[1] *General Information and Syllabus, 1965*, of The Institute of Chartered Accountants in England and Wales.

required to answer the examination paper. With no alternative it is difficult to validate this procedure. The accountancy-orientated university course in the U.K. has insufficient impact as yet. Experience in the United States, however, provides a valuable contrast.

The profession in America 'has turned over to the colleges and universities practically full responsibility for the basic education, and much of the training, of the future members of the profession'.[2] The debate on the teaching of auditing has some useful pointers for the British situation.

On the one hand, some American practitioners find their accounting undergraduates unable to perform many of the auditing functions that they believe they ought to have been taught.[3] They argue that there is a basic body of knowledge and the matters that a practitioner can expect from a graduate can be itemized. On the other hand, there is a school of thought which believes that audit courses have no place in the college curriculum – that the place for technical training is in the field.

In the future it looks as though this viewpoint will be promoted, not by any desire to omit auditing, but rather from the time pressures of the much broader based and liberal training felt necessary for tomorrow's accountants.

A survey in California has shown that existing college and university courses concentrated on audit reporting standards to the neglect of audit practice.[4] This approach is criticized in some quarters which believe that the emphasis should be on techniques rather than principles and theory; but applauded in others, for example, by the American Accountants' Association's committee on auditing instruction, who proposed a college course in the undergraduate's last year on a theoretical rather than a practical plane.

Trend in United States

The American profession seems to be moving towards a recognition of the role of college and university as education, leaving training to the profession. Attention is being paid to training courses within firms (although it is recognized that many firms are too small to run their own audit classes), and to local training sponsored by the profession.

Perhaps in Britain it will be possible for the close association that is being developed between the colleges and the local profession to be extended into the audit training field, once the English Institute's introductory courses are firmly established. Providing that the profession does not abdicate its training responsibility to the colleges, it may be possible to omit a step in the progression that has been experienced in America.

The American practitioner has to pay his graduate junior accountant a salary commensurate with his industrial counterpart. Furthermore the higher the standing of the young man's university or the standard of his degree, the more he will be able to command. There are considerable pressures, therefore, if the better young men are to be employed, to improve his auditing performance and achieve some payback on his work quickly. These pressures tend to improve audit training.

The work has to be done

Where the practitioner has an incentive to optimize the utilization he is obtaining from his junior clerks, such as the high cost and initial low yield of the American accounting graduate, more effort is likely to be applied to the rapid improvement of performance.

The third reason advanced in Britain for the employment of articled clerks on routine work is the least defensible: the matching of clerk to routine, because both exist, lacks any pressure for improvement. To the practitioner, the proposition is economically attractive as long as the articled clerk's cost is less than his value. Such an attitude does not promote the efficient use of the practitioner's resources.

The pressures that are building up will throw more emphasis on the use of machines and technical assistance to reduce the labour cost, and on statistical sampling and other techniques to improve performance. It is unlikely that the practice of the future will be able to justify the use of articled clerks on routine just because the routine is there and the clerk available to do it.

Experience of business

One of the greatest benefits of audit experience is one that is most frequently overlooked. The average articled clerk in a reasonably varied practice is likely to have a much better 'feel' for industry, business and management than the graduate of an American business school, because of the length of his exposure to them. A difficulty of teaching business studies to the student without this exposure arises from the lack of experience to fit into a cohesive framework.

Even the Harvard Business School, with its well-known emphasis on the case method to prepare students for the realities of the world in which they will work, encourages summer employment in business to broaden their awareness. The student hoping to become a controller will additionally work on a control report which will bring him into contact with industry.

Many of the doctoral students, potential teachers, enthuse at the business 'feel' they find during contacts with business on case writing. In none of these cases is the length of exposure as great as that of the articled clerk.

The British profession would be advanced by a study into means of maximizing the benefit to the student of his business and industrial experience.

The idea that auditing can be an important part of education for business would be rejected in many

[2] *The C.P.A. Plans for the Future*, by John L. Carey (American Institute of Certified Public Accountants, 1965).

[3] 'Accounting instruction at the undergraduate level', by Horace L. Landry, *Accounting Review*, January 1964.

[4] 'Audit reporting standards', by D. E. Roark, *California C.P.A. Quarterly*, March 1963.

spheres. Yet there is evidence that the wheel has turned full circle. At the Carnegie Institute of Technology, first-year students for the Master's degree in business administration act as the auditors to the second-year student teams involved in a lengthy business exercise. The emphasis is on the audit of all management activities rather than narrow ticking. The auditors produce reports on functional performance and suggest improvements, for example optimizing inventory size. Success is claimed in providing a better understanding of control and accounting.

If this is a turn of the wheel, it must also be observed that the wheel has moved quite a long way along the ground to emphasize the management audit aspects.

The training of articled clerks in Britain has traditionally involved years of hard-slog routine. The chartered accountant produced by this system has demonstrated, in the past, his value both in public practice and in business. It is suggested that in today's climate of technological change and managerial innovation the profession has a duty to re-examine the tenets on which the traditional practices are based to decide if all the opportunities open are being exploited to the full.

Management Accounting – Use of Financial Statistics

by AVISON WORMALD

THE theme of our annual conference this year is the contribution which can be made by dynamic and imaginative management to competitive ability. There is no area of management where this is more important than in accounting.

Conventional financial accounting is concerned primarily with making a periodic report to stockholders on certain changes (quite limited in number) which have occurred in their company, and particularly on the resulting profit or loss. This is in order that they may know what dividends they can expect to receive, and form judgements about the current value of their stocks. Clearly this is a very important matter, and more frequent and better reports are certainly necessary. But they are records of what has happened and they are reports to stockholders. Management accounting, on the other hand, is concerned with *reporting to management, not to stockholders*, in order that management can take action *in the present and future.*

These are very fundamental differences, and it is quite surprising that we should take it for granted that the same executives and the same department should be responsible for both. The qualities required of the management accountant are different from those of the financial accountant. He is concerned with planning for the future, *he is a member of the management team, and he is committed to the success or failure of management's plans.* The financial accountant, on the other hand, considers as his primary role the protection of shareholders (and how important that is has recently been demonstrated by deplorable scandals). He remains aloof from management, and uncommitted. The financial accountant, trained as an auditor, is therefore ill-fitted by training, and sometimes by temperament, to assist management in its fundamental task.

The problem has been frequently posed in the last year or two; Professor Hague wrote recently[1] to the effect that the professional accountant would lose his position in industry to others with a different background unless he changed quickly. The point has been made also by the professional bodies, but it is not always recognized *that it is not merely or chiefly a question of a knowledge of certain techniques, but primarily one of attitude.*

At the same time it is obviously necessary for the chief accountant to be, to some extent, independent of the chief executive, reporting directly to the board. If this were not so there would be the risk that he would only present to the board such facts and figures as fitted in with the chief executive's policies and the board would consequently have no means of forming an independent judgement, nor indeed of exercising their function as regards the protection of stockholders' interests. If the organization is large enough, therefore, a separation of the two functions is perhaps desirable.

Organizing for management accounting

I first became aware about fifteen years ago of the inability of a conventional accounts department to furnish management with the data it needs. As commercial director, I had acquired an overall concern in the profitability of quite a large public company. The accounting data available to

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[1] 'A four-point Programme for the Business Schools', *The Director*, April 1965.

me at that time was, I suppose, a fair sample of that produced by a moderately efficient industrial concern. There was an annual budget by departments, with a two- or three-year forecast; there was a monthly profit and loss account; and a monthly cash forecast. The accounts of the subsidiary companies were on the same pattern. I was concerned, however, with increasing profitability and therefore required a great deal of analytical material; that is to say, where money was being made and lost, what various products cost to make and sell, what products were on the upgrade and which on the downgrade, and so on. Obviously this type of information had to be prepared specially and there was no continuity. I therefore set up a special control section composed of graduates, some with an economics background and some with technical qualifications. There were no accountants but the section learnt a good deal of formal accountancy very quickly.

Such a combination of technicians and economists has great advantages in the interpretation and analysis of financial data. The former are more aware of the reality behind the figures in a technical business, while the latter are trained to study cause and effect, and to look for trends in a way which is not congenial to many accountants. They are also prepared to deal in approximation, which often the trained accountant is not. I think indeed that this is the pattern of the future, and if the accounts department is going to furnish management with the information it needs, it will have to recruit from a much wider spectrum of skills than in the past. The arrival, incidentally, of electronic data processing with the computer has only hastened the trend.

Defining the objective

The section I have described set about the analysis of every phase of the company's business and created a permanent running record in the way of tabulations and charts showing trends of sales, costs and profits, capital employed, etc. Our efforts were roughly on the same lines as the control charts of E. I. du Pont de Nemours, a description of which has been published[2].

Like that system, we concentrated on the rate of return on capital employed. I think, indeed, it is the single-minded concentration (only for purposes of financial control, be it noted) on this objective which has made the du Pont company one of the most profitable in the United States. I noted recently in my own company, Associated Fisheries, quite a stir when we calculated the return of capital employed, and also on capital invested, in all our principal operating units. Before that, with the exception of the major divisions, the only comparison was either with previous years or with budget, both of which have obvious limitations.

The rate of return is, of course, by no means the only objective which a company may assign to itself. Some companies may wish to increase their profits absolutely, while maintaining perhaps only a moderate rate of return; some may aim at greater turnover, in order to increase their share of a competitive market. In any case as I have implied above, even with du Pont, the rate of return is obviously not the sole criterion. In a company which is noted for its long-range programmes and bold market development, obviously the rate of return on capital cannot be pursued without regard to other objectives. Nevertheless, given certain agreed operating policies, it is the objective by which progress is assessed. It presents management and accountants alike with a clear objective in terms of which they have to report to the executive committee.

The whole system of analysis and reporting is directed to this end and is carried right down the line to individual products. I understand, although I have not seen it published, that du Pont have a standard form, called a 'Low return report' which the manager of the profit centre concerned has to complete regarding any product which fails to reach what the executive committee regards as a satisfactory minimum return on investment. I understand he has to explain how the product may be made satisfactory, or give convincing reasons why it should continue to be made and sold. We are all of us too familiar, I am sure, with the difficulty of getting management to give up products which do not pay, and arguments about 'making a contribution to overhead' are all too frequently used and accepted. Clearly, nice judgement is necessary to determine how much overhead a given product should attract, and in determining this a high order of skill on the part of the accountants concerned is called for. Courage is also required to resist the arguments of management where they are not sufficiently objective.

It is particularly important in the case of capital projects that management should lay down what the rate of return should be for projects of various types, so that the accountant can appraise each project with a definite objective in mind.

To summarize, in order that the management accountant can function usefully and report to management, the financial objectives of the business must be clearly stated, with whatever qualifications it is felt necessary to lay down, in view of long-term policy or other overall policy objectives.

We have noted the use by du Pont of the rate of return ratio, and within the framework of a general profit policy many successful companies make extensive use of this and other management ratios, both in the analysis of balance sheet and profit and loss data. The fundamental du Pont ratio is calculated thus:

$$\frac{\text{net sales}}{\text{assets employed}} \times \frac{\text{net profit}}{\text{net sales}} = \text{return on assets employed}$$

showing in one formula the turnover of capital and the rate of return on sales.

The number of possible ratios is obviously very large, but the continuous use of a selected few, appropriate to the needs of a particular business, can highlight situations to which otherwise little attention might be given.

Other significant ratios, in appropriate situations, are fixed assets/total capital employed, and total capital employed/sales, which reflect the degree to which a given business is capital intensive. Such ratios are useful in comparing changes in the same business and also in comparing two or more businesses of a similar kind.

Most United States companies make use of the ratio equity/debt and no one who has been a senior executive of an American company can fail to have learnt the meaning of the word 'leverage' (Transatlantic for 'gearing'). As a result perhaps of this preoccupation, American companies are on the whole higher geared than British, with consequent advantage to the ordinary stockholder. It is extremely common for senior American executives to think of profit in terms of earnings per common share, and most financial statements to top management carry this figure somewhere. It obviously contains, also, the element of gearing and of taxation, since profit is expressed net of tax. Most top American executives are strongly and continuously conscious

[2] *Executive Committee Control Charts*, E. I. du Pont de Nemours (1965).

of all three elements – profits, taxes and equity/debt ratio. The surprising extent to which in England the tax implications of new investment are ignored was shown by the paper published last year by the National Economic Development Council.

Principal functions of management accounting

The principal functions of management accounting are generally accepted as being:

(1) planning, especially through budgets and forecasts;

(2) control and reporting on plans;

(3) the assessment of capital projects;

(4) the improvement of operating efficiency through analysis.

I do not propose, of course, to discuss these very specialized matters in detail, and indeed I have little competence to do so, but merely to make a few observations on the requirements of management. Paradoxically enough, the most important thing which management asks of the accountant is that he should take the skill out of the management function. The manager would like to have plans and controls so perfect that once objectives had been formulated, the system would be self-regulating at the highest level of efficiency. This is what he asks; he knows that there is little prospect of his getting it.

Planning

Planning is a key function of top management. It is becoming more important every year. As the pace of change quickens, it is possible for a company to find itself disastrously off-course in a very short time. This, taken with the fact that units are getting larger in nearly all processes with a consequential loss of flexibility, gives a crucial role to the planning function. Plans are therefore tending to be more detailed, more flexible, and longer term (some companies plan twenty years ahead, most five years).

The process of planning takes place against a background of overall policy defined by top management. Then comes the plan of the department considered to be the limiting factor in the situation. This is generally, but not by any means invariably, the sales department. They say what they can sell and what they prefer to sell. This limiting factor may equally be, however, production or finance, in which case the planning process must start with this factor.

Now perhaps generally the chief accountant, or chief financial officer, will interpret his role as 'putting the figures together'. This is to say he will take the estimates of the various departments and from them produce:

(1) an estimated profit and loss statement;

(2) an estimated balance sheet for the end of the period;

(3) a statement of necessary capital expenditure;

(4) a cash forecast;

(5) a financial plan (how to raise the money).

He will no doubt consider that numbers (4) and (5) are his particular contribution to the process and that the remainder are matters where the power of decision and policy-making lies elsewhere. But is this so? Is not his real role rather to optimize the whole process of planning, to produce the plan which will give the best return on the capital employed – consonant, of course, with the other objectives of the company?

The sales budget presented by the sales department is obviously only one of a number of possible budgets; the real problem of planning is to find the plan which provides for sales which give the lowest cost of production, the lowest employment of funds in working capital, and the lowest requirement for new capital investment. If the chief accountant merely 'puts the figures together' he will certainly not have the optimum plan.

Limitations of time and manpower, of course, prevent the calculation of the large number of possibilities to give this one best solution, but at least the posing of the problem in these terms will lead to a better result than generally achieved, while electronic data processing is making it increasingly possible to build a variety of models showing the effect of changes in key factors. The assumption by the chief accountant of such an active role will no doubt in many cases be resented, and certainly if he wishes to maintain an uncommitted attitude, he will find it impossible to carry it out.

We may say, therefore, that the most important considerations as regards the role of the chief accountant *vis-à-vis* top management are:

(1) he must be fully acquainted with the mind and objectives of the managing director;

(2) he must be personally committed to the plan, and must consider himself a member of the planning team; he cannot maintain the aloof and judicial posture to which his training as an auditor will have accustomed him;

(3) as a member of the planning team his responsibility extends beyond his special responsibility for financial planning, and beyond his role as a co-ordinator of departmental plans. His most important function is to produce the *optimum plan* in terms of the overall objectives of the business.

Control

Once the plan is set up and accepted by management, a regular system of reporting is required to show:

(*a*) how far the objectives of the plan are being achieved – normally how the rate of return on capital employed, and on shareholders' funds agrees with the planned return; the question of financial resources may also be crucial and must be reported on;

(*b*) where differences are occurring; it may be, for example, that the planned profit is being achieved, but with the employment of more working capital than planned, or with a different product mix; it is quite possible for individual departments to be achieving their plans, but for the result in terms of overall profit to be different from that planned;

(*c*) more controversially, what the underlying trends are; it may be that the whole plan has become unrealistic, although the profit pattern is not yet too divergent; in many cases departmental management will refuse to recognize the position until real damage has been done; the chief accountant is not entitled to plead that he was not told, or that he was misled; his duty to the managing director is to watch the trends and report on them; if he can get departmental management to agree and provide both the diagnosis and the remedy, so much the better.

The reports to the managing director should be in a

standard form so that he does not have to waste time sorting out the data. They should be brief, illustrated with charts where possible, and draw attention by comment to differences from budget and any anomalous trends.

What is most important:

(i) they should be prompt, i.e. if monthly, within a few days of the end of the month, which means a certain amount of estimating and approximation (very distasteful to most accountants);

(ii) propose answers as well as questions – they should be designed to enable corrective or other action to be taken as quickly as possible.

Assessment of capital projects

The methods of appraisal of capital projects have greatly improved in recent years with the introduction of discounted cash flow, but they are still very inadequate and part of the function of the chief accountant is to use the most appropriate tools for the assessment of a particular project. His function is not limited to the checking of the estimates, it extends to questioning the assumptions on which the estimates are made and the criteria of appraisal for the project. He should raise all the necessary questions and provide the answers which the managing director will require.

Obviously his attitude in all these matters must not be critical and negative. He will only be successful in so far as he sets out to help operating management to reach better judgements and decisions.

The accountant has an increasingly wide range of sophisticated tools of which cost accounting, in one of its forms, is perhaps the most widely used.

As all managers are aware the areas where control is even reasonably satisfactory are rather few, and for reasons to which I shall refer later, are actually declining in importance. I will only note here that control of overhead efficiency in general, and research, advertising and sales expense in particular, is almost non-existent. In most organizations financial control is only against budget, and any attempt at measuring efficiency is on a periodic and generally irregular basis.

Some pressing problems

Until very recently at least, it has to be admitted that the control problem in all but quite small organizations was unresolved and no solution was in sight. If large organizations were more profitable or more viable it was in spite of, not because of, their organization structure and systems of control. Other things being equal it was fairly certain that the opposite of the sporting maxim was true, namely, that the good small one would beat the good big one. It was, and indeed is, as if a general were trying to fight a battle with plans made several months previously and with information reaching him about its progress days or weeks after the event.

Apart from the factor of size, there are two others which have produced a crisis in the information field and which only the computer and new methods can solve. First of all, there is the paradox of increasingly long-term plans, occasioned largely by the economies of scale and an environment changing with ever increasing speed. The two together form a formidable pair of scissors capable of cutting off nearly any manager's head.

Then there is the slow but seemingly inexorable shift of costs from direct and controllable costs to overhead costs which are largely uncontrollable. Research, advertising, accounting and a variety of other overheads is the area of costs where efficiency can hardly be assessed in any but qualitative terms.

These three factors, all becoming more important in the total situation, have effectively outstripped the techniques of financial control. It is only the coming of the computer and the study of new techniques, still in an embryonic state, that give hope of better control in the future. Some progress has been achieved in the handling of the simpler problems such as inventory control, and probably the improvement of cash flow procedures with the aid of the computer will soon enable large economies to be made in working capital.

In spite of the progress represented by discounted cash flow and other improvements in the assessment of new capital projects, the present methods of capital project appraisal are extremely unsatisfactory. Important matters such as the long-term value of labour substitution are not taken care of to any worth-while extent, and the estimating of technical obsolescence is only a matter of rule of thumb. The ability of the computer to show the effect of varying the assumption, in an almost limitless number of situations, will bring the whole process into a new era.

We are now able to foresee a state of affairs when we will have available to us immediately an immense range of information, right up to date, and by putting questions to the computer we will be able to see the effect of new circumstances on our plans. Data will be available continuously, and not, as now, at intervals dictated by the practical difficulties of collating it and rendering it meaningful. We need to know more; to plan with more detailed knowledge of the consequences; to know continuously how our plans are affected by current happenings; to be able to foresee the effects of action we are contemplating.

Five fundamental principles

As a user of management accounting data, I would like to propose five basic principles for the guidance of accountants in reporting to management:

1 *Reality rather than convention*

Accounting has a long and interesting history and consequently current practice contains many relics of the past and a good deal of convention. That extraordinary document, the balance sheet, is the best illustration of this.

One of the fiercest controversies in which I have ever been personally involved was the result of this antithesis between reality and convention. In this case there had been a revaluation of fixed assets, and so from a strict accounting view, depreciation should have been increased to correspond with the higher value of assets. Since there would be no tax benefit in this, the question seemed to me to be reduced to one of the maintenance of profit-earning capacity and thus the future of the business. I questioned whether it was necessary to sterilize earnings in depreciation reserves to the detriment of stockholders. There were two factors which weighed very heavily with me, namely, that our expenditure on research was very large and new plant was increasingly efficient for an equivalent cost. The profit-earning capacity of the business seemed to me therefore to be taken care of, indeed we were making a heavy revenue investment in the future. I think my advocacy of this point of view was


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not effective and I remember the unappreciative silence which greeted my impassioned statement that the balance sheet only viewed the business from one narrow and conventional viewpoint. Although true, I feel it was not a very effective argument.

2 *The future rather than the past*

To the manager the past is of interest only in so far as conclusions about the future may be drawn from it. The present equally so, for by the time any remedial action has been taken it will already be in the past. The manager, therefore, lives entirely in the future and his world is made up of standards, budgets and projections.

In one business of which I am a director, there is a rather remarkable illustration of this preoccupation with the future. The business is highly seasonal and so management never, in fact, presents to the board an actual operating statement of profit and loss to date (except, of course, at the year-end). Each quarter the board receives a revised budget for the year showing, *inter alia*, changes from the last budget. In many such businesses, the management have to make their own deductions regarding the effect of changes to date on the rest of the year. Here, the past is ignored except in so far as lessons about the remainder of the year may be drawn from it.

The same preoccupation is shown by the du Pont practice (I believe) of requiring at the beginning of the month a forecast for the out-turn. In most cases the previous month's figures have no interest as they are so close to the forecast. In any case they are history.

3 *Causes rather than effects*

The facts shown by the accountants' statements may be in accordance with budgets, but the causes may be very different. A common situation of which we have all had experience is the business which has one profitable product. The overall profit and loss position may appear satisfactory, whereas if the unprofitable lines were eliminated, the situation would be much better.

A rather dramatic instance of this was in a business with two plants, one producing industrial chemicals, the other fine chemicals. The overall profitability was low and so I spent a good deal of time scrutinizing the charts and tabulations relating to the business. My eye was caught by a chart of profitability by-products which showed most of the fine chemicals declining steadily with one notable exception, while the curve of industrial chemicals was rising fast. The solution was then obvious – to transfer the one good fine chemical to the industrial chemical plant and close down the fine chemical plant. This was done with excellent results.

If we had not taken this course we would probably have had a fairly stable but mediocre profit level, good products compensating for bad, until the situation worked itself out by the disappearance of the unsatisfactory products. As it was, we undoubtedly gained several years.

4 *Trends rather than facts*

Facts may be important – if a business finds it has no money in the bank, that is a fact of which it has to take note. In general, however, a well-managed business is much more concerned with trends, and the bare statement of fact is often misleading. The following example may be of interest:

The company concerned had lost large sums of money for several years consecutively, but at the same time was spending over £¼ million a year on research. Research appeared, however, to have made no progress worthy of note in the way of new products, so that the accountants felt justified in saying that it was making no contribution to profitability and should probably be discontinued, thereby enabling a break-even position to be achieved.

An exhaustive examination, however, by the special section to which reference was made earlier showed that the established lines sold by the company were declining very fast and the losses would have been increased but for the indirect benefits of research, in reducing costs, improving products, and getting products on licence from abroad. The results of this examination were in fact so conclusive that we predicted accurately that the business would break even in two years and produce a very substantial profit within five years. This forecast, greeted with incredulity, if not scorn, was in fact achieved. If the reports based on the apparent facts and not the underlying trends had been accepted, a disastrous and irreparable decision would have been taken.

Frequently, of course, it is not easy to discern what the trend really is. When we say 'trend' we mean a series of events showing a general direction. In the case of financial statistics this implies that temporary and extraneous factors should have been adjusted. Factors of this kind may be price, general economic conditions, weather, changes in exchange rates, etc. This process is sometimes called 'normalization' and, of course, requires a good deal of knowledge and skill on the part of the accountant. He is in a difficult position because on the one hand the crude statistics may well be meaningless or misleading, and on the other he may be accused of 'doctoring' the figures.

In one business with which I am connected a statistical correlation has been established between temperature and sales, and therefore statistics are corrected for temperature in order to assess the true sales trend. In another business with which I was concerned, sales and profits were highly sensitive to general economic conditions. We had made at one period a large investment in new methods of promotion and had reorganized the business completely. The result appeared to be, and was reported by the accountants, as a downturn in profits. In fact, however, by correcting for the general downturn of the industry, we were able to forecast quantitatively a swift upsurge in profits when general conditions returned to their former level.

5 *Speed rather than exactness*

All factual statements, even the best, made by accountants refer to the past. If they know about something and can report on it, it has already happened. The value of many reports, therefore, may be in direct relationship to the speed with which they are produced. This obviously involves estimating and approximation, distasteful to most accountants.

In most large industrial concerns, of course, time is necessary to turn a situation around, hence the preoccupation with trends. The amount of action that can be taken as a result of monthly profit and loss reports, for example, may be quited limited. There are obviously many exceptions to this statement, in the retail trade for example, or businesses with a marked seasonal peak. It is therefore rather important to classify the information available according to the importance of frequency and promptness of reporting.

Probably sales, inventories and cash balances come into the category requiring most frequent, even daily, reporting.

There is one sense, however, in which the promptest and most frequent reporting possible is valuable to management. That is that it enables management to discuss the situation with those responsible in the knowledge that the report is still relevant. In too many cases discussion of detail is rendered nugatory by the fact that the situation is certain to have changed since the report.

Conclusion

In this brief discourse I have discussed, from the point of view of management, what is expected from the management accountant. I have inevitably had to contrast the attitudes and practices of the professionally-trained accountant, generally a member of one of the great professional bodies, with those required of the management accountant. I am not unaware that we have the best auditing firms in the world, and that their names are as well-known in the United States as they are here, but a partner in one of these firms himself said to me very recently that it took three years to train a qualified accountant to be a management accountant.

Having said this, however, obviously the onus for getting the data he needs falls on the manager himself. If the accountant is not aware of his philosophy and policies, and if, as I have said, there is no clear objective on which reporting can be sharply focused, obviously the accountant cannot be fully effective.

On the manager, too, falls the necessity for creating an organizational pattern which makes effective reporting possible. If the organization is not based on clear lines of authority with sharply defined cost and profit centres, it is difficult for accountants to report in terms which make effective management action possible.

Reviews

The Finance Act, 1965, for Property Advisers

by PHILIP RAE-SCOTT, M.A., and DOUGLAS JOHNSTON, M.A., LL.B., LL.M.

The Estates Gazette Ltd, London. 52*s* 6*d*.

Seldom has a Finance Act been responsible for so much literature as that of 1965, but there is a ready market for every book which will help advisers to find their way through the technicalities of the many obscure provisions.

This present work has been devised, as the title indicates, for the assistance of property advisers, especially estate agents, surveyors and acutioneers. Members of the accountancy profession with clients in this field will also find the book of much assistance.

The approach is an interesting one. Dealing first with the taxation of capital gains and then with corporation tax, the basic principles are summarized in simple terms, referenced at each stage to the relevant sections of the Act. Matters affecting property are then dealt with at greater length and in detail. Two features of interest and help to the adviser and his client are a table setting out the main points and time limits of the short- and long-term capital gains tax at the beginning of the book, and an appendix listing the main advantages and disadvantages of liquidating companies before April 6th, 1966.

In the opinion of the reviewer the examples at present included in the narrative would have been more clear to the reader if set out as separate exercises. This apart, the choice of type and the general layout make for easy and helpful reading and the book is undoubtedly a useful addition to the literature on this complicated subject.

Industrial Economics

by H. G. HUNT, B.SC.(ECON.), PH.D.

Pergamon Press Ltd, Oxford. 21*s* net.

The Structure of Industry in Britain

Second edition by Professor G. C. ALLEN

Longmans, Green & Co Ltd. 13*s* 6*d* net.

In this addition to the Commonwealth and International Library of Science, Technology, Engineering and Liberal Studies, Dr Hunt seeks to explain how economic factors affect business and administrative decisions, the processes being set against a background of descriptive commentary of the structure of British industry and the forces affecting it. No prior knowledge of economics is required, although some understanding of basic theory would help the reader to appreciate the author's work.

The book is intended for students of industrial administration and management, and it can be recommended for those working for the Final in the professional accounting examinations. The author, who is a lecturer in one of the embryonic new universities, writes clearly and ranges over a wide field of topics germane to his subject.

The second edition of Professor Allen's book offers a rather different approach to this subject, more clearly brought out in the sub-title 'A Study in Economic Change'. He reviews the structural changes that have taken place in Britain during the present century, including the various forces and influences which have brought about such changes. In particular he examines the impact of industrial associations, the growth of combines and, more especially, the relationship between the State and industry.

This is a thoughtful analysis of the main industrial influence which both the qualified accountant and the student will find of interest.

The Inland Revenue

by Sir ALEXANDER JOHNSTON, G.C.B., K.B.E.

George Allen & Unwin Ltd, London. 20s net.

The reputation of the Inland Revenue among the various Government departments is an enviable one. The Revenue has been the training ground for many a senior Civil Servant, and a new study of the Department's manifold activities from the Chairman of the Board is to be welcomed.

The object of this and companion volumes in the publishers' 'New Whitehall' series is to provide an authoritative picture of Government departments at work. No one will cavil at this description of this series although the result makes, at times, for rather dull reading. Indeed, some readers may well wonder whether the need for an authoritative study such as this work presents should have been allowed to justify the virtual elimination of comment and criticism. Not that Sir Alexander suggests in so many words that the Department for which he is responsible is perfect, but on the whole he would appear to be not dissatisfied with its organization or its capacities.

Nevertheless for the average practitioner whose contacts with the Revenue – confined in the main to dealings with the local tax office – are at times tedious and even irritating, this book will prove both interesting and informative. It is, in terms of present-day prices, certainly very good value for money.

Auditing with the Computer

by WAYNE S. BOUTELL

University of California Press.
London: Cambridge University Press. 40s net.

It is some fifteen years since computers were first applied to business records. Dr Boutell has tried to indicate the probable nature of the task which they will raise for the auditor in the next fifteen years.

He begins by discussing generally the problems created by the indeterminacy of business information systems, and by the absence of a satisfactory general theoretical basis for them. He then discusses the development of the business-orientated computer (incidentally ignoring all un-American contributions since Babbage's designs of, *circa* 1850, for an 'analytical engine') and segregates some recent significant trends – the apparent stability of the design of central processing units, the development of mass-storage random access systems, the improvement of input-output equipment, the formulation of the idea of integrated data processing, manufacturers' attempts to develop packaged programs, the introduction of smaller computers, and the extension of service bureaux.

A major development in auditing practice over many years now has been the increasing attention paid to reviewing the system of internal control, using that term in a restricted accounting sense. Dr Boutell describes clearly the conflicting views of those who feel that the auditor needs only to match inputs to outputs and can safely *bypass* the computer's operations, and those who feel that real benefits are to be gained by auditing ***through*** the computer. 'Initially the auditor tended to view the computer as an obstacle to be overcome or circumvented. . . . More recently there seems to be a feeling that the computer may actually strengthen internal controls and may be of assistance in conducting the examination.' (p. 60). This feeling probably arises from the complete system-wide uniformity of treatment of like items, the ability to accept system-wide changes and the logic of the computer.

Dr Boutell has drawn on the scanty literature of the subject and on the results of a survey (reproduced in an appendix) which he conducted with the co-operation of some major American firms of public accountants whose practices covered well over one thousand installations, in order to distil the main elements of present audit practice concerning computer systems. There is still an overwhelming concern with preserving a clear audit trail in the form of conventional records and reports (quite often supplemented by test-pack checking of programs) with little regard to whether the system under scrutiny is batch-controlled or on-line.

The technological developments taking place in input, output and storage are making on-line integrated real-time systems steadily more feasible and these systems do not readily permit such audit procedures. Changes must therefor be expected. Some firms already maintain a controlled copy of the client's program tapes and ultimately, when a more suitable common language has been devised, the use of an independent audit program to perform the substance of the routine checking work now carried out conventionally will become practical. The auditor will still need to analyse the objectives of the system and its overall design, but will be able to *use the computer* to discover exception items, to determine their statistical significance and to decide whether any further examination is needed.

This is an excellent book, well worth buying. It is concise, well-constructed and well-written. It indicates areas offering great scope for both theoretical and empiric research. It may help to demolish the conscience-salving misconception that the auditor of a computer system need not be well-versed in electronic data processing techniques. It is positively alarming that 40 per cent of the 2,300 staff members of the firms of public accountants surveyed by Dr Boutell had not even a 'general understanding of how computers function and an ability to read and interpret flow charts and block diagrams of computer systems'.

The Hospitals Year Book 1966

Editor: J. F. MILNE, M.C., B.SC.

The Institute of Hospital Administrators, London. 79s 6*d*.

This useful work of reference has undergone a thorough revision and the 1966 edition continues to provide up-to-date and authoritative information for all branches of administration and management in the hospital and allied services.

The hospital directory sections give full particulars of hospitals and hospital authorities in Britain, Northern Ireland, and the Isle of Man. Other sections include details of hospital finance, Government departments and statutory bodies, local health authorities, executive councils, and hospital contributory and provident schemes. The substantial reference section includes notes for hospital administrators on legal, technical and general subjects.

In his review of the hospital service during the past year, the editor, discussing the Minister of Health's review of the future hospital building programme, says that the resources which are planned to be available for capital development over the next ten years, and the system of financial control that is adumbrated provides a strong incentive to hospital boards to ensure that the resources which are made available are utilized to the best advantage.

'What remains to be seen, however', he continues, 'is what those resources will be.' The figure given in the National Plan suggest that total expenditure for the decade to 1975–76

could be about £1,070 million, an increase of 25 per cent over the figure of £855 million previously envisaged in the 1964 revisions of the hospital plans. To replace the greater part of existing hospitals, and also to provide for the growth of population over the next thirty-five years, he adds, would entail an annual rate of expenditure in the order of £150 million for England and Wales, and £20 million or more for Scotland.

RECENT PUBLICATIONS

PRACTICAL EXERCISES ON INCOME TAX IN SINGAPORE AND THE STATES OF MALAYA, by F. H. Lee, A.C.C.S., A.A.I.A. vii+112 pp. 10½×8. M$ 10. Broadway Music House, 472 North Bridge Road, Singapore 7.

HARRISON AND HILLMAN'S BOOK-KEEPING AND ACCOUNTANCY FOR SOLICITORS, third edition, Volumes I (Text) and II (Accounts and Index), by P. Harrison, xi+267+14 (two volumes), 9×5½. 55s net. Butterworth & Co (Publishers) Ltd, London.

ACCOUNTING IN ACTION: A SIMULATION, by John J. Willingham, PH.D., C.P.A., and Robert E. Malcolm, PH.D., C.P.A. vii+195 pp. 11×8½. 20s net. McGraw-Hill Publishing Co Ltd, Maidenhead.

INTRODUCTION TO BUSINESS ACCOUNTING FOR MANAGERS, by W. C. F. Hartley, F.C.A., F.C.W.A., vii+143 pp. 7½×5. 7s 6d net. Pergamon Press, Oxford.

WORK STUDY IN THE OFFICE, third (revised) edition, by H. P. Cemach, F.C.A., F.I.L., M.I.M.C., M.I.O.M., F.INST.W.S. 211 pp. 8½×5½. 35s net. Maclaren & Sons Ltd, London.

YOUR MONEY: A Guide to Individual Investment, by Margot Naylor. 213 pp. 8×5. 15s net. Barrie & Rockliff, London.

READINGS ON TAXATION IN DEVELOPING COUNTRIES, edited by R. Bird and O. Oldham. xii+556 pp. 9×6½. 72s net. Oxford University Press, London.

CASES FOR DISCUSSION, by J. R. Lewis, LL.B., A.C.C.S. x+141 pp. 8×5. 12s 6d net. Pergamon Press Ltd, Oxford.

ACCOUNTING FLOWS: INCOME, FUNDS AND CASH, by R. K. Jaedicke and R. T. Sprouse, viii+167 pp. 8½×5½. 20s net. Prentice-Hall International, London.

ECONOMICS OF AUTOMATIC DATA PROCESSING: Papers presented at the International Symposium of the International Computation Centre, edited by A. B. Frielink, xiv+384 pp. 9×6. 86s net. North-Holland Publishing Co, Amsterdam.

THEORIES OF ECONOMIC GROWTH AND DEVELOPMENT, by Irma Adelman. ix+164 pp. 8½×5½, Card covers. 15s net. Stanford University Press. London: Oxford University Press.

CORPORATION TAX, by C. N. Beattie, LL.B. xxviii+562 pp. 10×6½. 70s net. Butterworth & Co (Publishers) Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2.

Finance and Commerce

Staveley Industries

LAST year, the report and accounts of Staveley Industries came in for some criticism in these columns, and it is all the more pleasing therefore to see the major improvements made in the presentation of the latest accounts. Last year, the report had 'an artistic cover design' but the contents were decidedly sub-standard; this year, however, artistry has been dropped in favour of simplicity and good reporting.

The old style profit and loss and appropriation accounts have given way to the concise statement shown in the reprint. The group profit and loss account is set out in large type, with the notes alongside, and the only point to make on this occasion is that perhaps the account has been truncated to too great a degree.

But that may be carping criticism of the obvious effort and thought put into the new presentation of the accounts as a whole. The double-sided balance sheet has also been dropped in favour of the columnar form with notes alongside.

Financial Information

One of the criticisms of the 1963–64 accounts was that although in 'Financial Information' profits were equated to net assets employed, the accounts themselves did not bring out the net assets figure. In this year's accounts the net assets figure is shown – in the columnar account form – and the divisional profit breakdown, as this column suggested, has been taken out of the context of the chairman's statement and is included in 'Financial Information'.

Additional information this time is the geographical breakdown of sales. Since the last accounts were issued, the chairmanship of the company has changed as a result of the appointment of the former chairman, Mr Aubrey Jones, as chairman of the National Board for Prices and Incomes. Mr Denis Haviland, formerly the deputy chairman, has taken Mr Jones's place.

In his review, Mr Haviland says that the board's policy is to exploit the several growth points that exist in the group as a means of improving earnings. The latest accounts, the chairman comments, show 'a much better but still inadequate level of profitability'. The main drag on earnings is the George Richards machine tool subsidiary which has again shown a substantial loss, although exactly how much is not stated.

Acquisitions

The operation of this subsidiary is crucially important for the future profitability of the machine tool division. Richards' problem was first analysed in 1962–63 when the loss was also 'substantial'. Mr Haviland comments: 'a

further review now being made indicates that the problem was then under-estimated. Urgent consideration is therefore being given by your board to the best use of Richards' facilities'.

Against this background of the need to expand at growth points and to inject greater profitability into the machine tool division in particular. Staveley, in the year under review, took over the Craven Brothers (Manchester) company. This year the Asquith Machine Tool Corporation has been added to the group and the longer-term plan is to merge Staveley's machine tool division with the B. Elliott machine tool group in a jointly-owned company.

The Craven Brothers acquisition has yet to yield a return to the group. The chairman says: 'The loss the company was making has ceased, but time will be needed to recreate a profitable situation, particularly since the Government's 'squeeze' has caused a downturn in orders from certain heavy industries'.

Staveley Industries Limited and Subsidiary Companies

expressed in £,000's

BALANCE SHEETS 30th September 1965

	note	The Group 1965	The Group *1964*	The Company 1965	The Company *1964*
Current assets					
Stocks	1	7,610	*5,718*	—	—
Debtors		7,357	*5,978*	187	*146*
Income tax recoverable		178	*343*	178	*343*
Short term deposits		647	*600*	647	*600*
Cash and bank balances		492	*708*	329	*395*
		16,284	*13,347*	1,341	*1,484*
Deduct					
Current liabilities					
Creditors		4,128	*3,294*	45	*40*
Taxation	2	1,617	*1,616*	21	—
Bank overdraft		362	—	—	—
Proposed final dividend		417	*332*	417	*332*
		6,524	*5,242*	483	*372*
Net current assets		9,760	*8,105*	858	*1,112*
Subsidiary companies	3	—	—	11,222	*9,103*
Trade investments	4	420	*330*	394	*308*
Fixed assets	5	7,597	*6,747*	38	*36*
		17,777	*15,182*	12,512	*10,559*
Deduct					
Taxation equalisation		1,040	*1,003*	—	—
Net assets		16,737	*14,179*	12,512	*10,559*
Representing					
Capital and reserves					
Issued share capital	6	7,891	*6,771*	7,891	*6,771*
Capital reserves	7	1,059	*501*	673	*126*
Revenue reserves	8	7,387	*6,507*	3,948	*3,662*
Shareholders' equity		16,337	*13,779*	12,512	*10,559*
Minority interests	9	400	*400*	—	—
		16,737	*14,179*	12,512	*10,559*

D. W. G. L. Haviland
G. G. Thompson
Directors

The notes [next column] form part of these accounts.

expressed in £,000's

NOTES ON THE BALANCE SHEETS

1 Stocks
Stocks have been consistently valued at the lower of cost and net realisable value. Substantially, cost includes materials, direct labour and variable overheads

2 Taxation
Taxation includes a provision of £706,000 for corporation tax payable on 1st January 1967.

3 Subsidiary companies

	1965	*1964*
Shares at cost less amounts written off	10,290	*8,243*
Amounts owing by subsidiary companies	2,429	*3,145*
	12,719	*11,390*
Amounts owing to subsidiary companies	1,497	*2,287*
	11,222	*9,103*

The accounts of the Canadian company have been converted at \$3·02 to £1 (*1964—\$3·02*).

4 Trade investments
Trade investments are shown at cost. They include £225,381 for shares in Philblack Limited, the quoted market price of which at 30th September 1965 was £1,040,598 (*1964—£828,253*).

5 Fixed assets
Movements are as follows:

The Group	Freehold and leasehold properties			Plant machinery and equipment			Total
	Cost	Depreciation	Net book value	Cost	Depreciation	Net book value	Net book value
At 30 Sept 1964	*3,704*	*843*	*2,861*	*7,537*	*3,780*	*3,757*	*6,618*
Acquisition	160	—	160	784	—	784	944
Expenditure	153	—	153	686	—	686	839
Disposals	*119*	*12*	*107*	*341*	*215*	*126*	*233*
Depreciation	—	102	*102*	—	612	*612*	*714*
At 30 Sept 1965	3,898	933	2,965	8,666	4,177	4,489	7,454
Loose tools and patterns at cost *less* amount written off (*1964—£129,191*)							143
							7,597

The Company	Freehold properties			Plant machinery and equipment			Total
	Cost	Depreciation	Net book value	Cost	Depreciation	Net book value	Net book value
At 30 Sept 1964	*24*	*4*	*20*	*26*	*10*	*16*	*36*
Expenditure	—	—	—	7	—	7	7
Disposals	*1*	—	*1*	*1*	*1*	—	*1*
Depreciation	—	—	—	—	4	*4*	*4*
At 30 Sept 1965	23	4	19	32	13	19	38

6 Share capital

	Authorised 1965	Authorised *1964*	Issued 1965	Issued *1964*
Ordinary shares of £1 each	7,891	*6,771*	7,891	*6,771*
Unclassified shares of £1 each	3,229	*3,229*	—	—
	11,120	*10,000*	7,891	*6,771*

7 Capital reserves

	The Group	The Company
As at 30th September 1964	*501*	*126*
Share premium on the issue of 1,120,000 ordinary shares	539	539
Net surplus on sale of properties	19	8
As at 30th September 1965	1,059	673

8 Revenue reserves

	The Group	The Company
As at 30th September 1964	*6,507*	*3,662*
Transfer from Taxation Equalisation in respect of change in rate and other adjustments	118	—
Retained profit for the year	762	286
As at 30th September 1965	7,387	3,948

9 Minority interests
These consist of £400,000 5% redeemable cumulative preference shares of £1 each, fully paid in James Archdale & Co Limited. The earliest date for redemption is 1st October 1966 when a premium of 2/6d per share, totalling £50,000, would be payable.

10 Capital commitments
Commitments with third parties in respect of contracts for capital expenditure amounted to £770,411 (*1964—£138,281*).

11 Contingent liabilities
There were contingent liabilities for bills receivable discounted and guarantees given amounting to £268,721 (*1964—£213,046*).

Organization

The Craven deal, however, has allowed a greater degree of rationalization within the group and the aim of adding Asquith to the Staveley machine tool division is not only to bring in a largely complementary range of production to the division (particularly in the field of highly sophisticated big-scale tools), but also to take advantage of Asquith's marketing techniques.

In another 'growth point' in the Staveley group, the company's British Soda subsidiary is co-operating with Cerebos in new plant projects in Cheshire. Over the group as a whole capital spending is heavy with £839,000 spent on capital projects during the year under review and expenditure of a further £1·5 million sanctioned. Cash resources are considered adequate.

Meanwhile, much progress has been made in organizing the group on a divisional basis. This has led to a closer relationship between the constituent units of each division with benefits in the exchange of information and economy of production. A year ago it was stated that a group accountant had been recruited to modernize methods of financial control throughout the group. Probably he is responsible for modernizing the method of presenting the accounts as well.

Staveley Industries Limited

FINANCIAL INFORMATION

Year		1965	*1964*	*1963*	*1962*[2]	*1961*
Sales	£,000's	29,830[1]	25,776	24,354	24,257	23,453
Profit before taxation	£,000's					
Chemical Division		619	577	574	516	479
Foundries & Abrasives Division		710	568	444	405	404
Machine Tool Division		582	422	(24)	455	286
Other subsidiary companies		119	88	42	69	148
		2,030	1,655	1,036	1,445	1,317
Income from investments		121	63	52	69	68
		2,151	1,718	1,088	1,514	1,385
Profit to sales	%	7·2	6·7	4·5	6·2	5·9
Net assets	£,000's	16,737	14,179	13,741	13,477	12,879
Profit to net assets	%	12·8	12·1	7·9	11·2	10·8
Dividends (net)	£,000's	556[3]	456	373	581	456
Retained profit	£,000's	762	398	246	521	146

[1] Of total sales by Group Companies in 1965, 69% were sales in the United Kingdom, 23% in the Commonwealth, 6% in Europe and 2% in other countries. Exports from the UK represented 15% of total sales; for the Machine Tool Division, 32%.

[2] This was a fifteen months period. Sales and profit figures have been shown on an annual basis.

[3] Includes dividends on the increased share capital.

Staveley Industries Limited and Subsidiary Companies

expressed in £,000's

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30th September 1965

expressed in £,000's

	note	1965	*1964*
Profit for the year	1	2,151	1,718
Taxation	2	821	852
Profit after taxation		1,330	866
Minority interests		12	12
Profit available for appropriation	3	1,318	854
Dividends less income tax for the year ended 30th September 1965			
Interim dividend 3%		139	124
Proposed final dividend 9% (1964—8%)		417	332
		556	456
Retained profit for the year	4	762	398

The notes [next column] form part of these accounts

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1965	*1964*
1 Profit for the year		
The profit for 1965 includes the profit of Craven Brothers (Manchester) Ltd from 1st January 1965		
Profit is shown after crediting:		
Income from trade investments	65	53
Income from other investments	60	10
	125	63
and after charging:		
Remuneration of directors of Staveley Industries Limited:		
As directors	7	7
For management	74	64
Pension to former director	3	3
In connection with the resignation of a director	—	10
	84	84
Depreciation	714	584
Auditors' remuneration (Parent Company £2,034, *1964–£1,895*)	19	18
2 Taxation		
United Kingdom taxation based on the profit of the year:		
Income tax	43	572
Profits tax	8	221
Corporation tax	706	—
Overseas taxation	84	37
	841	830
Transfer from taxation equalisation	20	22
	821	852
Relief obtained from United Kingdom taxation in respect of investment allowance	58	80
Corporation tax has been provided at 40%. Had provision been made at 35% the charge for corporation tax would have been £618,000		
3 Profit available for appropriation		
Of the profit available for appropriation, £842,226 (*1964–£682,389*) has been dealt with in the profit and loss account of Staveley Industries Limited		
4 Retained profit for the year		
Staveley Industries Limited	286	227
Subsidiary companies	476	171
	762	398

CITY NOTES

THE second week of talk, counter-talk and double-talk has left the stock-market as apparently unmoved as the electorate. There has certainly been no swing one way or the other in equity prices and worthwhile price movements have only been occasioned by individual items of company news.

Behind the inactivity, however, there is much discussion and not a little prognostication. That is particularly so in the realm of interest rates. The gilt-edged market has been under pressure mainly because the level of interest rates is gradually being overhauled by rising competitive rates abroad.

There is talk that it has been touch and go whether Bank rate would be increased, with a decision, in the event, being taken to support sterling in the foreign exchange market rather than raise Bank rate for protection purposes. That would seem a harsh interpretation of the present mood of the authorities but it is an indication of the present way of interest rate thinking.

Internally, a high interest rate level has come to be the 'accepted norm' and interest rates themselves do not appear to have been a final factor in industrial investment or in private spending considerations. But if a still higher level of rates should develop then the money cost factor could become more potent in industrial considerations, not only here but abroad as well.

* * * *

BY this time next month the rate of corporation tax should be known. Opinion in the City is now fairly solid in accepting that the rate will be at the top end of the Chancellor's 35 per cent–40 per cent anticipation. There is a firm minority view that the rate may even be beyond 40 per cent. The Chancellor's statement of a year ago was no hard and fast promise that 40 per cent would necessarily be the top limit. Recently he was on record as saying that there was no reason for severe increases in taxation and an extra 2½ per cent on top of 40 per cent would not, in politicians' terms at least, be construed as severe. Meanwhile there are many companies still accounting for corporation tax at 35 per cent which seems a supremely optimistic exercise.

* * * *

WHEN Building Society interest rates are raised – as they will be unless the societies are offered special tax concessions – the building society movement will hardly be open to criticism on the ground of insufficient warning of the event. 'Home Loans Shock', however, is such a convenient newspaper headline that much of the persistent warning of recent weeks will prove to have gone unheeded. What is possibly of more concern to the movement at present is the working of the Government's intended scheme for assisting lower tax-paying mortgage borrowers. Lord Cohen, chairman of the Alliance Building Society, recently indicated building society misgivings on the necessary mechanics of the scheme suggesting that a lot of groundwork needs to be done on it.

* * * *

FAILURE of the last two public offers of shares in multi-purpose investment trusts has shown clearly the limited public appeal of investment of this type. The offers of Income and Capital shares in Altifund – despite some very distinguished names on the board of directors – were both very heavily left with underwriters. The remarkable point, however, is not that public investment response was so small but that the distinguished promoters of the latest two operations should have considered the market for this type of offer a multi-million one. The initial public offer by an investment trust rarely proves an opportunity for ground-floor investment. There is invariably a bargain basement later on.

RATES AND PRICES

Closing prices, Tuesday, March 22nd, 1966

Tax Reserve Certificates: interest rate 28.11.64 3½%

Bank Rate

Nov. 2, 1961	6%	Jan. 3, 1963	4%
Mar. 3, 1962	5½%	Feb. 27, 1964 ..	5%
Mar. 22, 1962 ..	5%	Nov. 23, 1964 ..	7%
April 26, 1962 ..	4½%	June 3, 1965	6%

Treasury Bills

Jan. 14 ..	£5 9s	9·73d%	Feb. 18 ..	£5 12s	1·90d%
Jan. 21 ..	£5 9s	0·33d%	Feb. 25 ..	£5 12s	4·78d%
Jan. 28 ..	£5 9s	8·03d%	Mar. 4 ..	£5 12s	4·49d%
Feb. 4 ..	£5 10s	1·22d%	Mar. 11 ..	£5 12s	2·26d%
Feb. 11 ..	£5 11s	3·91d%	Mar. 18 ..	£5 12s	1·24d%

Money Rates

Day to day ..	4⅜–5⅝%	*Bank Bills*	
7 days	4¼–5⅛%	2 months ..	5 15/16–6%
Fine Trade Bills		3 months ..	5 15/16–6%
3 months ..	7–7½%	4 months ..	5 15/16–6%
4 months ..	7–7½%	6 months ..	5 15/16–6%
6 months ..	7¼–8%		

Foreign Exchanges

New York ..	2.79 7/16	Frankfurt ..	11·21 9/16
Montreal ..	3·00⅝	Milan	1748¼
Amsterdam ..	10·12 7/32	Oslo	19·99¾
Brussels	139·13	Paris	13·69¾
Copenhagen ..	19·27	Zürich	12·13⅛

Gilt-edged

Consols 4% ..	59	Funding 6% 1993 ..	89 9/16
Consols 2½% ..	37 1/16	Savings 3% 60–70 ..	85
Conversion 3½% ..	51 7/16	Savings 3% 65–75 ..	73⅞
Conversion 5% 1971	93	Treasury 6½% 1976	99
Conversion 5¼% 1974	91⅞	Treasury 3½% 77–80	72⅞
Conversion 6% 1972	97½	Treasury 3½% 79–81	70 7/16
Funding 3½% 99–04	57½	Treasury 5% 86–89	79⅛
Funding 4% 60–90	93¼	Treasury 5½% 08–12	82
Funding 5¼% 78–80	87¼	Treasury 2½% ..	37⅞
Funding 5½% 82–84	88⅜	Victory 4%	95¾
Funding 5¼% 87–91	87½	War Loan 3½% ..	52¼

Correspondence

The Institute in the Computer Age

SIR, – Old traditions die hard, but is it not time that the Council of the Institute got its head out of the clouds and looked at reality? For example:

Fact one. The 1965 *Handbook* shows there are about forty thousand members of The Institute of Chartered Accountants in England and Wales. Close on three thousand five hundred are in practice 'within the Metropolis', and nearly another five thousand are listed as 'not in practice' in London 'central and outer'. Hence we may conclude that something less than 25 per cent of members live or work within easy travelling distance of Institute headquarters.

Fact two. Salary scale and overhead costs are at least 25 per cent higher in Central London than anywhere else in Great Britain.

These two facts brought together raise the question. Why, oh why, must the Institute squander hundreds of thousands of pounds in building a vast new 'gin palace' in an area of England where overheads, etc., are higher than anywhere else, and where less than a quarter of the members will be able to use the facilities? Why should not the administrative centre be moved to a provincial city where costs are less? The money saved could then be used to provide better services and buildings for district societies, so that we *all* can get something for our money.

Another fact. The cost of the honour of writing 'A.C.A.' after one's name is £8 8*s* per annum. In addition to passing examinations, the financial cost of becoming a member, in admittance and examination fees, can be anything up to £50. The subscriptions were increased this year to pay for higher administration costs, for the building programme and for an 'advertising campaign'. My first experience of the new advertising matter was recently when my morning paper had a six-inch by ten-inch picture of a young chartered accountant sitting on a computer console. The caption inferred that if you trained for three to five years as an articled clerk you, too, would be able to do the same. My work happens to be associated with computers, but that has nothing to do with training to become a chartered accountant.

The facts are that only a very small proportion of articled clerks ever have the opportunity of seeing a punched card, let alone a computer, and not one word of computer theory or practice is included in the training programme. If we are to advertise, please let us not deceive ourselves as well as the general public. The Institute does run computer courses, but who is it that can afford them at 60 guineas a week? Certainly not the young chartered accountant.

Another fact which should provide food for thought is that considerably more than half the membership is in industry, and what use to them are their years of toil with bills receivable books, joint venture accounts and executors *de son tort*?

In my opinion, if accountants, and in particular their governing bodies do not face up to reality and move with the times, soon the profession will die like the trade of my forefathers.

Yours faithfully,
J. E. C. CARTWRIGHT, B.A., A.C.A.

Congresbury, Bristol.

Machinery of Taxation in Jeopardy?

SIR, – At a recent interview with an Inspector of Taxes, before getting down to the main purpose of my visit, I placed on his desk recent Finance Acts together with all the Official Notes of explanation issued by the Board of Inland Revenue dealing with the Case VIII provisions (income from real property), short-term gains, expense payments, capital gains tax, corporation tax, etc., the whole covering perhaps one thousand pages of printed matter.

I suggested that it must have involved the work of many top-grade civil servants and inquired if he knew and understood the contents of these documents. I admitted I did not (yet) but my clients imagined I did, as would most taxpayers likewise expect the same of him.

My purpose was to emphasize that the volume of recent tax legislation and pamphlets of explanation issued was expected to be understood by him and myself as individual persons, but that owing to the restricted ability of any individual to match up to the expert ability of the many, it seemed to me that the whole machinery of taxation relating to profits and income was likely to grind itself to a complete standstill, but perhaps not before a state of utter chaos was reached.

It seems to me that no amount of amalgamation or mergers amongst accountants will automatically solve this problem, especially bearing in mind the inability of the profession to attract qualified men to remain in practice after qualification.

Surely the time has come for the professional organiza-

tions representing those engaged on taxation affairs to combine in taking steps to protect the interests of their practising members and others by direct contact with the authorities to point out that a halt must be called to this fantastic rush to deal with all things at once.

Very obviously Members of Parliament of all parties have been unable to understand and appreciate the impossible burdens being placed upon an inadequately staffed profession by the passing of the recent complicated Finance Acts, and further, is this not likely to also create a very dissatisfied section of the Civil Service in the Inland Revenue Department represented by H.M. Inspectors of Taxes and their staffs?

Yours faithfully,
ALBERT V. HUSSEY, F.C.A.

London EC2.

Decimal Currency

SIR, – If I read the leading article 'Decimal Currency Dilemma' in your March 12th issue aright you favour the 10s-cent system. It should perhaps be pointed out that there are really three choices available, namely:

(*a*) the retention of the major unit of currency, i.e. the £;

(*b*) the retention of the minor unit of currency, i.e. the penny;

(*c*) the retention of neither.

I should have thought that the 10s-cent system, which is the third, gives rise to the greatest possible difficulty. I would like to suggest that if we are to abandon the £ there are very strong reasons for retaining the penny and in such circumstances making the new major unit 1,000 pennies which is broadly equivalent in real terms to the value of a sovereign before 1914.

The big advantage of retaining the penny lies in the possibility of making exact conversions of all sums of money from the old to the new. This is especially valuable for such things as industrial insurance. Secondly, the old and new coins can circulate side by side still having precisely the same value. There would not be nearly so much urgency to alter calculating machines, cash registers, etc.

Yours faithfully,
P. W. GLASSBOROW.

Loughton, Essex.

Accounting Treatment of Investment Grants

SIR, – I would like to comment upon Mr K. A. Sherwood's proposal to deduct capital subventions from the value of the assets acquired with them, in your March 5th issue. This proposal has also been made by Mr P. A. Bird in the *Journal of Accounting Research* (Vol. 3, No. 1, Spring 1965), but it does not appear to me sound in theory or in practice.

We are accustomed to the unfortunate effects of taxation on the form and content of accounts, but we should attempt to minimize those effects in the light of the overriding importance of a 'true and fair view'. The treatment of investment grants, as of all inflows of funds, should proceed from an analysis of their economic nature, so that the accounts may present this fact correctly.

The analysis will show that investment grants are capital provided by the Government for investment in fixed assets, and not a reduction in the value of those assets. The fact that the grant represents neither proprietorship nor debt does not affect its capital nature; we are faced with the necessity to show a third category of capital. Nor is the fact of capital subventions a new one, particularly on the Continent, where they are treated as sources of funds in the balance sheet.

There is no prima facie reason, therefore, (*a*) to credit the subvention to revenue, either at once or over a period of time, or (*b*) to deduct the amount from the related asset value. Only in one case can (*b*) be correct, and that is where the acquisition price of the fixed asset is known to be uneconomic and the subvention is an indirect form of operating subsidy to its manufacturer or otherwise. An example of this would be the purchase of uneconomic aircraft by an airline, under pressure to support a domestic aircraft manufacturer. This fact should be revealed in the accounts of the airline. It is possible that some grants to firms in development districts will fall into this category.

The consequences of adopting the proposal to 'net' the fixed assets would be to falsify the accounts for all decisions except those involved in levying tax – shareholders', lenders', creditors', insurance, profitability, other managerial and even national and regional economic decisions. I should like to point out that the European Union of Accountants has, since its inception, campaigned for direct taxation to be based on accounts prepared according to sound economic and financial principles.

Yours truly,
KENNETH S. MOST,
Head, School of Accountancy,
SINGAPORE POLYTECHNIC.

Singapore.

Capital Gains Tax

SIR, – A few days ago, I received a 1966–67 tax return form (No. 11, 1966). The accompanying notes were missing, but I have since obtained these – after a struggle.

The return calls for a statement of chargeable assets acquired, with a description of the asset, date acquired and cost or acquisition value; and it blandly says 'See Note 22'.

Note 22 states 'Enter the required particulars of all assets acquired during the year on which a chargeable gain or allowable loss would accrue (see Notes 8–11) if the assets were disposed of.'

The declaration the taxpayer must sign includes a reference to chargeable assets acquired.

I cannot recollect if our jolly M.P.s considered the Tenth Schedule, paragraph 6. I admit that it did not occur to me that the Revenue would actually use this power automatically; and I am not aware of any publicity given to this matter.

Regardless of the practical consequences this coming year, I visualize an avalanche of follow-up inquiries in later years – 'Has your client sold his . . . . shares'.

However, I am more immediately concerned with a problem of my own. I have just made a cupboard for the

dining-room. My wife says it is beautiful and she thinks it will one day sell for a very large sum. The materials came to about 25s, but I have not yet costed it precisely, being in some doubt what to do about the value of the antique timber my mother gave me some years ago.

Yours faithfully,
R. C. C. RAWLINS, F.C.A.

London WC2.

Non-recurring clients and charity

SIR, – During the year I give time to non-recurring clients. These may be people with small specific problems which can be quickly cleared up; people with great dreams and nil assets; or people who, candidly, are dishonest and wish to see how far they can bend me if they do become clients. As a practitioner I feel duty bound to see these people problem does arise as to whether or not they shou charged, and if so, how much.

Here is my solution. When I have a small non-recu client, I bill my normal fees but give the option of imm settlement for half of the fee made payable to The Cha Accountants' Benevolent Association. The rationale i if people will not pay normal fees, it is useless cutt one-half or, indeed, cutting at all. Cutting fees is on of ensuring that one day I will be needing the Bene Association! Thus, I do not cut fees but save a lot of ti chasing small sums.

The Secretary of The Chartered Accountants' Bene Association has asked me to try and get publicity fo idea in the hope that it will interest other practition

Yours faithfully,
F. HENDERSON-WILLIAMS, B.A., A.

London W8.

Advanced E.D.P. Conference at Cambridge

THE traditional end-of-term somnolence that affects Cambridge round about mid-March was broken last week as more than one hundred and sixty men of all ages and from several countries assembled at Trinity College for the first four-day advanced electronic data processing conference organized by The Institute of Chartered Accountants in England and Wales.

The theme and the pace of the conference were set from the start by its chairman, Mr Lawrence Robson, F.C.A., F.C.W.A. His audience of members in public practice, in industry and in the Civil Service – and of non-members from a wide variety of activities – all bound by the immediate interest each one had in the use of computers, heard him put the potentialities and problems of E.D.P.

Challenging

The challenge to the accountancy profession was foremost in Mr Robson's thoughts. He stated it simply as the task of producing enough systems analysts and programmers as company after company takes the plunge into automation with a computer. He compared Britain's 1,000 businesses which have computer installations with the United States' 20,000, and he called on Britain to match the performances, not only of America, but also of such countries as France and Germany.

Amicable

In the accustomed style of the modern conference, members' lapel badges underlined the variety of talent which had gathered to instruct, to listen, and to discuss at this advanced E.D.P. gathering arranged by the Institute to further the work already begun at Brighton, where a series of courses was held last year on the subject at a more modest level of attainment.

The green badges of Institute members mingled amicably with the orange of non-members, and – under the impressive Tudor-Gothic ceilings of Trinity College, where the conference was housed and fed – gathered around the black badges of the conference and session chairmen, lecturers and group leaders. And moving between the groups or on the platform during lectures, the red badges of Institute staff were also in evi

The eight lectures and present from British, American and Eu experts approached E.D.P. fr variety of angles. These ranged the widespread inspection of c usage concepts in the U.S.A. b A. B. Toan, jun., C.P.A., to the a ably down-to-earth and factual nations of inventory manageme other control techniques given Esso team, Mr B. E. Friend, and Mr K. C. Phillips.

Visual aids were used wh possible, and a visit to the Cam Mathematical Laboratory's Titan puter (Atlas II), gave factual po the proceedings.

Rewarding

After each talk twelve disc groups gathered in dons' throughout the College. Ancien with the gracious patina acquire centuries of theological and cl tutorials appeared to blanch what as tough, up-to-the-m discussion of inventory procedu stock control by computer rebo around them. Many members conference said later that they

these discussions as rewarding as the talks on which they were based. Leaders often inveigled the speakers into their own groups, but generally a list of questions thrashed out by groups was prepared and presented for answer during the evening discussion periods.

Conference interlude. Mr Lawrence Robson, F.C.A., F.C.W.A., Conference Chairman (*right*) with, to his right, Mr G. B. R. Feilden, C.B.E., F.R.S., Group Technical Director, Davy-Ashmore Ltd; Sir Kenneth Anderson, K.B.E., C.B., Deputy Director-General, The Post Office; Mr M. C. Ashill, F.C.A., Under-Secretary of the Institute, and Mr F. Clive de Paula, T.D., F.C.A., F.C.W.A., a Group Leader.

Unresting

During the crowded four-day itinerary, speakers included I.C.I. director, Mr Alan Gawler, J.P., F.C.A., whose subject was the use of computers and the role of management science in planning business operations. Members in public practice also made their contribution: Mr L. W. Shaw, B.SC., F.C.A., dealt with the current talking-point of auditing a computerized system, while Mr J. P. Hough, F.C.A., spoke on new developments in the computer field.

Decision-making by management through the use of information processed by new computer techniques was the theme of Mr H. Vermuelen, the Philips administrative director and a member of the Netherlands Institute, while the host Institute's Technical Officer, Mr D. W. Hooper, M.A., F.C.A., spoke on the place of the computer in the management structure.

Session chairmen included such distinguished personalities as Professor J. R. N. Stone, C.B.E., M.A., the P. D. Leake Professor of Finance and Accounting at Cambridge University, Sir Kenneth Anderson, K.B.E., C.B., Deputy Director-General of the G.P.O., Mr G. B. R. Feilden, C.B.E., F.R.S., group technical director of Davy-Ashmore, and Professor M. V. Wilkes, M.A., F.R.S., Director of the University Mathematical Laboratory.

A lighter moment at one of the session meetings. On the platform: Mr Lawrence Robson, F.C.A., F.C.W.A., Conference Chairman (*right*), with Mr G. B. R. Feilden, C.B.E., F.R.S. (*centre*), and Mr J. P. Hough, F.C.A., who presented one of the papers.

The Institute of Chartered Accountants of Scotland

Report of the Council

Extracts from the Report of the Council to be presented to the annual general meeting of the members of the Institute on April 1st.

Joint Diploma in Management Accounting Services

The annual report for 1964–65 referred to resolutions passed by the Institute in special general meeting which provided for the addition to the Institute's Rules of a new Rule 70 conferring upon the Institute in general meeting powers as to the approval and adoption at any time of any diploma scheme which might be considered to be desirable, and for the approval of the scheme for a Joint Diploma in Management Accounting Services. The new rule was approved by the Privy Council on March 3rd, 1965.

The other participating bodies (The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants in Ireland, The Institute of Cost and Works Accountants and The Association of Certified and Corporate Accountants) also approved the Joint Diploma scheme. The Irish Institute was not able immediately to join the scheme, pending the sanctioning of necessary alterations to its Charter by the Governments of the Republic of Ireland and of Northern Ireland.

The Joint Diploma Board (which succeeded the Joint Diploma Committee which had prepared the scheme) was then constituted, and at its first meeting on June 1st, 1965, appointed Mr W. S. Risk, B.COM., C.A., F.C.W.A., as its chairman. The Board and its committees proceeded with the heavy task of preparing the detailed arrangements for bringing the diploma scheme into effect.

On November 29th, 1965, the news was released that the scheme would start on January 1st, 1966, and that the first written examination would be held in June 1966.

It was also announced that the following members of the Institute were amongst those who had accepted honorary awards of the Joint Diploma: Professor W. T. Baxter, B.COM., Messrs John Black, M.A., LL.B., C.I.MECH.E., James T. Dowling, A. F. Down, O.B.E., M.C., T.D., Sir Archibald Forbes, G.B.E., Messrs J. S. Hutchinson, Ian W. Macdonald, M.A., Sir William McFadzean, COMPANION I.E.E., Sir Robert A. Maclean, and Mr David J. Young, F.C.W.A.

The Council understands from the Board that the initial response to the Board's announcement is encouraging, and that at February 18th, 1966, some nine hundred members of the participating bodies have applied to the Board's secretary for detailed particulars.

The Joint Diploma scheme is an unprecedented joint venture by the leading accountancy bodies in the British Isles, and it is important for the future of the profession that it should succeed. The Joint Diploma is the highest award available to qualified accountants of Great Britain in respect of their work in the field of management accounting services. The Council accordingly commends the diploma scheme to the attention of all members of the Institute interested in that field.

Special Committee on Education and Training

Since April 1964 the special committee appointed by the Council to consider and report upon the examination and training of candidates for membership of the Institute has met seventeen times, nine of the meetings having taken place during the period under review. The task set the committee by the Council, however, is onerous and one that is not made any easier by the rapidly changing social and economic climate and by developments in the functions and techniques of the profession. The committee has yet to report finally to the Council, but in 1965 it made an interim recommendation which was accepted by the Council and introduced in the August 1965 edition of the *C.A. Apprenticeship Guide*. This interim recommendation, made after consultation with representatives of the Universities of St Andrews, Glasgow, Aberdeen, Edinburgh and Strathclyde, concerned important alterations in degree syllabuses so that they could include mercantile law, economics and accountancy. A graduate whose degree has been slanted towards the profession in this way is still to be required to serve an apprenticeship of three years but during that service will not have any University classes to attend and will be exempted from all save Parts IV and V of the Institute's examination and will be permitted to sit these during the first two years of their apprenticeships.

Research

The Research and Publications Committee put in hand during the year a further five research projects, and the projects which were started in 1964 were continued. One of these latter was brought to completion by the publication of the second paper on 'The presentation of taxation matters in company accounts', which appeared in the December issue of *The Accountants' Magazine* [and *The Accountant* of December 18th, 1965].

As well as dealing with the various facets of the Institute's research programme, the committee considered and reported on specific matters referred to it by the Council and expressed opinions on a number of research papers and studies which were received from other accountancy bodies for comment. As in previous years, a close liaison was maintained between the committee and its equivalents in Canada and New Zealand.

As a result of the Institute's participation in the *Cou-*

mission de Lexicologie Comptable de l'U.E.C., the Research and Publications Committee has taken under its wing the British share of the work of revising the *U.E.C. Lexicon*. For this purpose a subcommittee has been set up to handle translations of lists of terms.

Feasibility Study into Computer Education and Applied Research Centre

As a result of a suggestion coming forward from the Electronic Data Processing Courses Committee, the Council agreed early in 1965 to test the support likely from computer manufacturers, users of computers in Scotland and other interested bodies for promoting a study into the feasibility of setting up a Computer Education and Applied Research Centre in Scotland. At its meeting on April 2nd, 1965, the Council decided that the promised support was sufficient to permit the sponsoring of a study and remitted to the President and Vice-President the appointment of a study team. This study team, which has been examining the problem in detail since early May, was broadly based and included representatives of the universities, commerce and industry, local authorities and nationalized undertakings as well as members of the Institute. In addition, representatives of the Ministry of Technology and of the Scottish Office have been closely in touch with the activities of the team.

The report of the study team is not yet ready for publication, and it would be inappropriate to forecast any of its findings. There can be no doubt, however, that the announcement by the Minister of Technology on December 8th, 1965, regarding the setting up of a National Computer Centre at Manchester, is bound to have some effect upon the team's recommendations.

The finance for this project was received from Babcock & Wilcox (Operations) Ltd, Caterpillar Tractor Co Ltd, Clydesdale Bank Ltd, Colvilles Ltd, English Electric-Leo-Marconi Computers Ltd, IBM United Kingdom Ltd, International Computers & Tabulators Ltd, and Scottish Co-operative Wholesale Society Ltd. The Council desires to record its appreciation of this generous support of the project.

Post-qualifying Education

In April 1965 the Council appointed a Special Committee on Post-qualifying Education to take over the arrangement and running of all the Institute's post-qualifying courses.

Electronic data processing

Series of part-time courses on electronic data processing, with particular emphasis on programming, were held in Edinburgh, Glasgow and London between September and December 1965. In all, 136 members attended these courses.

A residential course on 'Accounting and the computer' was held at Crieff Hydro from November 19th to 22nd, 1965, and was attended by twenty-seven members, including two observers from the Special Committee on Post-qualifying Education.

A residential course on 'Auditing a computer' has been arranged and will be held at the University of St Andrews from March 25th to 28th, 1966. This course substantially repeats that held on the same subject at Dunblane in February/March 1965. Over eighty members enrolled for this course.

Taxation

During the autumn of 1965 part-time courses were held in Aberdeen, Dundee, Edinburgh, Glasgow and London to study the new capital gains and corporation taxes, and were attended by a total of 1,120 members. A residential course covering the same ground as the part-time courses was held at Hotel Dunblane from November 12th to 14th, 1965, and was attended by seventy-two members. A similar residential course was arranged by the Inverness Local Committee for members in that area and took place at the Glenmhor Hotel, Inverness, on November 19th and 20th, 1965.

Management accounting

A series of part-time courses in individual analytical techniques began in February 1966 with a course on 'Critical path method (PERT)' in Edinburgh and Glasgow. Enrolment was limited to thirty-five members in each centre. The series will continue with a course on 'Linear programming' in April 1966 and a course on 'Discounted cash flow' in August 1966. Enrolment for these part-time courses is limited to thirty-five members in each centre.

Plans have also been made to hold a residential course on 'An appreciation of management techniques' at St Andrews University from September 29th to October 3rd, 1966.

U.E.C. (Union Européenne des Experts Comptables Economiques et Financiers)

During the period under review the Executive Committee of U.E.C. completed its proposals for the reorganization of the general committee work of U.E.C. to take account of the enlarged membership consequent upon the admission to membership of the leading accountancy bodies in the British Isles, the Netherlands and the Nordic countries. These plans were approved by the *Assemblée des Délégués* and the reconstituted committees were set to work. The Scottish Institute is represented on three of the standing committees and on the Executive Committee.

Mr Alexander McKellar, C.A., was elected a Vice-President of U.E.C. for 1965–66.

Under the auspices of U.E.C. plans are being made for publishing a *European Journal of Accountancy*. The representative of the British Isles on the Editorial Board is a member of the Scottish Institute.

The special committee of U.E.C. which is called 'The Baden-Baden Policy Committee' and on which the Institute is represented, continued its work in preparation for the U.E.C. Study Conference to be held in Baden-Baden from November 8th to 11th, 1966 (the dates having been changed to suit the general convenience). The conference, which will be on lines similar to those of an Institute Summer School, will be divided into a number of working groups each working in one of the three official languages – English, French and German.

Taxation

In May 1965 the Taxation Committee drafted representations to the Board of Inland Revenue on the Finance Bill, 1965, and representatives of the committee met the Deputy Chairman on June 10th, to discuss the views put forward. In addition, following consideration of the matter by the Taxation Committee, the President wrote to the Chancellor of the Exchequer, drawing to his attention the provisions of

the Finance Bill dealing with the taxation of pension payments and suggesting that the retirement arrangements of professional firms should be excluded. An acceptable amendment was introduced into the Bill at the Report stage.

As a result of an invitation from the National Economic Development Office the committee put forward on November 19th, 1965, certain proposals on the subject of taxation allowances for the purpose of stimulating investment in capital assets. The committee's general approach has found a place in the Government's White Paper on the stimulation of investment in industry published on January 17th, 1966.

In January 1966, the Council, on the advice of the committee, submitted to the Chancellor of the Exchequer a memorandum on matters which it was suggested should be dealt with in the next Finance Bill. At the same time a memorandum was sent to the Board of Inland Revenue dealing with certain aspects of the Finance Act, 1965. Both these memoranda were reproduced in *The Accountants' Magazine* for February 1966 [and *The Accountant* of February 12th, 1966].

Apprentices

The number of indentures registered during 1965 was 404, as compared with 452 in 1964. The figures for a calendar year are, however, affected by the chance whether certain indentures are lodged for registration at the end of one year or the beginning of the next. A more realistic picture is given by the following analysis of the indentures registered during the twelve months ending July 31st, 1961, and each subsequent year to 1965, showing the break-down by areas of Local Committees:

Area	1960–61	1961–62	1962–63	1963–64	1964–65	Total
Edinburgh	86	99	80	120	94	479
Glasgow	215	208	253	256	243	1,175
Aberdeen	16	15	22	21	20	94
Dundee	35	24	41	38	40	178
Inverness	8	6	6	7	9	36
London	24	24	27	22	13	110
Total	384	376	429	464	419	2,072

The number of graduate apprentices registered in each year in the above table was as follows:

1960–61	32	(8 per cent of total)
1961–62	35	(9 ,, ,,)
1962–63	40	(9 ,, ,,)
1963–64	39	(8 ,, ,,)
1964–65	37	(9 ,, ,,)
	183	(9 ,, ,,)

The above figure of 9 per cent is low having regard to the Institute's need for a share of the best educated young men in the country; while every young man who could on his examination record proceed from school to university does not choose to do this, an increasing number do so in an age in which more university places are becoming available every year and in which Government aid ensures that financial considerations need not be a bar to a university education.

Although it would not be true to argue that at the present time *all* the best brains go to a university, it would probably not be wide of the mark to argue that most of the best brains before they leave school reach the examination standards required for university entrance. In 1962 the Council announced the raising of the minimum standard of preliminary qualification for apprenticeship to an attestation of fitness for entry to a Scottish university as from March 1st, 1968. If this should lead to a fall in the number of apprentices coming forward, the records indicate that it should also lead to a significant fall in the percentage of apprentices who fail to qualify: of the 1,729 apprentices whose indentures were registered between May 1951 and December 1956 the number who failed to qualify was 423 (over 24 per cent).

In August 1965 a new edition of the *C.A. Apprenticeship Guide* was published and copies were sent to apprentices and firms taking apprentices, as well as to schools, youth employment officers and others. Reference has been made earlier in this report to changes made in the *Guide* relating to the training of certain graduates. Consequent upon the new taxes introduced in the Finance Act, 1965, changes were also made in the syllabuses for the taxation papers in Parts II and IV of the examination.

On January 10th, 1966, the Council issued new recommendations in regard to the remuneration of apprentices in Scotland. The recommendations were for a minimum increase of 24 per cent over five years for an apprentice making optimum progress. The recommendations were made in a letter sent to every member in public practice in the United Kingdom. Copies of the letter can, on request, be obtained from the Secretary.

Membership

Number of Members

The membership of the Institute at December 31st, 1965, was 7,745 compared with 7,597 a year earlier. During 1965 the number of new members admitted was 244. Two applicants who had ceased to be members in earlier years were re-admitted to membership, one of whom, Mr William Barrie, was required to pay a re-admission fee in addition to arrears of subscription; he was listed in the Annual Report for 1955 as having ceased to be a member by reason of non-payment of his annual subscription.

Notes and Notices

PROFESSIONAL NOTICES

Messrs Black, Geoghegan & Till, Chartered Accountants, of 54 Old Broad Street, London EC2, and Messrs Robertson & Maxtone Graham, Chartered Accountants, of 33–34 Charlotte Square, Edinburgh 2, announce the formation on April 1st, 1966, of Messrs Black, Geoghegan & Till Edinburgh partnership. The practice will be carried on from the offices of Messrs Robertson & Maxtone Graham, the partners being all the present partners of their two firms, namely Messrs B. M. Till, T.D., M.A., F.C.A., R. L. Jones, F.C.A., D. Buckley Sharp, M.A., F.C.A., R. S. A. Donnithorne, M.A., F.C.A., B. F. J. Pardoe, M.A., F.C.A., H. Hale Crosse, A.C.A., C. G. M. Pearson, C.A., W. J. M. Alexander, C.A., G. C. Ruffle, C.A., H. McMichael, C.A., M. C. Murphy, C.A., A. Cassels, C.A., G. F. Davidson, C.A., W. R. Barnetson, C.A., and R. W. McGregor, C.A.

Messrs Blackburns, Robson, Coates & Co, Chartered Accountants, announce that from March 28th the address of their London office will be 24–28 Moorgate, London EC2. The telephone number will remain National 1971.

Messrs Gerald Braunton, Jacobs & Co, Chartered Accountants, of Waterloo House, 20 Waterloo Street, Birmingham 2, announce that Mr Coleman David Jacobs, T.D., F.C.A., has retired from the partnership but will continue to be attached thereto as a consultant. The name of the firm remains unchanged.

Messrs Buckle, Barton & Co, Chartered Accountants, of Stansfeld Chambers, Great George Street, Leeds 1, announce that Mr Harold Jevons, A.C.A., was admitted as a partner on March 1st, 1966. The name of the firm will remain unchanged.

Messrs Garnett, Crewdson & Co, Chartered Accountants, of 12 Booth Street, Manchester 2, announce the retirement of their partner, Mr A. Holmes, F.C.A., on March 31st, 1966. The practice will be continued under the existing name and from the same address by the remaining partners.

Messrs Maxtone Graham & Sime, Chartered Accountants, of 54 Old Broad Street, London EC2, announce that as from April 1st, 1966, they will be carrying on their practice under the name of Robertson & Maxtone Graham and also admitting into the partnership Messrs G. G. Ruffle, C.A., H. McMichael, C.A., G. F. Davidson, C.A., W. R. Barnetson, C.A., and R. W. McGregor, C.A., all of whom are partners of the Robertson & Maxtone Graham Edinburgh partnership.

Messrs Grainger, Bonn & Co, Chartered Accountants, have moved to Mutual House, 193–197 Regent Street, London W1, telephone Regent 3772–4.

Appointments

Mr John R. Page, F.C.A., Secretary and Group Accountant of Odhams Press Ltd, has been appointed to the board of the company.

Mr S. B. Pendock, A.C.A., has been appointed to the board of Slater, Walker Securities Ltd.

Mr T. M. Sneddon, C.A., has been appointed an executive director of S. G. Brown Ltd.

Mr H. F. Somerville, C.A., has been appointed finance manager of Liebig's Extract of Meat Company Ltd.

Mr Cecil C. Taylor, F.C.A., has been appointed a director of N. Greening & Sons Ltd.

Mr G. L. C. Touche, B.A., F.C.A., has been appointed chairman of the Guardian Investment Trust Co Ltd as from March 31st.

Sir William Watson, C.A., has been elected chairman of the Standard Life Assurance Co Ltd.

BRITISH IRON AND STEEL FEDERATION

Sir Henry Benson appointed Chairman of New Committee

The British Iron and Steel Federation has set up its own Development Co-ordinating Committee for the whole industry and Sir Henry Benson, C.B.E., F.C.A., has been appointed its independent chairman.

The terms of reference of the new committee are as follows: 'To consider all aspects of iron and steel industry rationalization and co-ordinated development, to examine the impact of particular proposals on the industry's future competitiveness and its ability to meet the particular needs of the British economy, and to report.'

MONOPOLIES COMMISSION

Chartered Accountant Member

Mr Henry Chisholm, C.B.E., F.C.A., chairman of Ada (Halifax) Ltd, and chairman of Corby Development Corporation (New Town), has been appointed by the President of the Board of Trade as a member of the Monopolies Commission for an initial period of three years.

With this new appointment the Monopolies Commission now has eighteen members. The recent Monopolies and Mergers Act permits appointments to be made up to a maximum of twenty-five members.

NEW CHAIRMAN OF BRITISH-AMERICAN TOBACCO

Mr D. R. N. Clarke, F.C.A., is to become chairman of the British-American Tobacco Co Ltd on July 1st next. On that date the present chairman, Sir Duncan Oppenheim, will relinquish the chairmanship and, at the invitation of the board of directors, become President of the company.

Mr Clarke was born in India on July 9th, 1908, where his father was serving in the Indian Civil Service. He was educated in England at Stonyhurst and then served his articles, being admitted to membership of The Institute of Chartered Accountants in England and Wales in 1932. In the same year he joined British-American Tobacco on the accounting side.

During the Second World War he served in the Army from 1942–45, holding the rank of Lieutenant-Colonel. and after the war he re-joined British-American Tobacco and was appointed assistant to the finance director of the company. In December 1954 he was appointed to the board as finance director, becoming a deputy chairman in January 1960 and vice-chairman on May 1st, 1962.

REDEMPTION OF 5½ PER CENT EXCHEQUER STOCK

The Treasury has announced that no conversion offer will be made in respect of holdings of 5½ per cent Exchequer Stock 1966. The stock which matures on March 15th, 1966, will be redeemed at par on that date.

CHESTER AND NORTH WALES CHARTERED ACCOUNTANTS

At the recent annual meeting of the Chester and North Wales Branch of the Liverpool Society of Chartered Accountants held at Llandudno, the following officers were elected for the ensuing year:

Chairman: Mr R. Breese Jones, F.C.A.
Vice-Chairman: Mr J. H. Bates, F.C.A.
Hon. Secretary: Mr H. M. Shaw, A.C.A., 1 Hunter Street, Chester.
Hon. Treasurer: Mr J. E. Thomas, F.C.A.
Hon. Auditor: Mr Frank Hack, F.C.A.

Messrs J. Ellis Evans, O.B.E., T.D., D.L., J.P., F.C.A., Eric Johnson, F.C.A., and J. I. Morris, A.C.A., were elected to serve on the Committee.

At the annual dinner of the Branch held at the Imperial Hotel, Llandudno, following the annual meeting, the toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr J. B. De Loynes, C.M.G., and the response was made by Mr J. A. Jackson, F.C.A., a member of the Council of the Institute.

Mr J. H. Bates, F.C.A., proposed the toast 'Our Guests', and Mr R. Edwards, H.M. Inspector of Taxes, Chester 1st District, replied.

The toast of The Chester and North Wales Branch of the Liverpool Society of Chartered Accountants' was proposed by Mr J. M. Harrison, T.D., M.A., F.C.A., President of the Liverpool Society, and Mr R. Breese Jones, F.C.A., responded.

YORK SOCIETY OF CHARTERED ACCOUNTANTS

Annual Dinner

The profession had to get away from the 'O' level approach of entry into the profession and should think instead of 'A' level candidates and those who have taken degrees, declared Mr David Steele, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, speaking at the annual dinner of the York Society of Chartered Accountants held recently at the Merchant Taylors' Hall, York.

Mr Steele went on to say that to ensure a better intake the profession must work more closely with universities and colleges, and, referring to specialization, he said that the profession had to admit a degree of this, adding, 'We cannot be a master of a craft that is coming to have so many branches'.

The Society's chairman, Mr C. E. Wragg, F.C.A., who presided, referred to the considerable problems and additional work which accountants now had to deal with through the introduction of the corporation and capital gains taxes. Other speakers were the Lord Mayor of York, Alderman William Bridge, and the President of the Insurance Institute of York, Mr Gerald H. Pattison.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

MONDAY, MARCH 28TH
The Chess Club will meet at 6 p.m. in the Students' Society Common Room. All members are welcome to a game.

TUESDAY, MARCH 29TH
Soccer match against the Institute of Estate Agents, County Fire Office ground, Rayners Lane.

THURSDAY, MARCH 31ST
Reading Branch. Professor W. T. Baxter, B.COM., C.A., J.DIP.M.A., will speak on 'Valuation of unquoted securities' at The Great Western Hotel, at 7.15 p.m.

THURSDAY, MARCH 31ST, TO SUNDAY, APRIL 3RD
Residential course at Corpus Christi and Pembroke Colleges, Cambridge.

ANNOTATED TAX CASES

Part 5 of Volume XLIV of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is published today and contains reports, with notes on the judgments, of the following cases: *Cyril Lord Ltd v. C.I.R.* (H.L.); *C.I.R. v. Bates* (C.A.); *Utitz v. Elwood* (C.A. of N.I.); *Bishop v. Finsbury Securities Ltd* (C.A.); *Fielden v. C.I.R.* (Ch.D.); *Hurley v. Young* (Ch.D.).

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